

Morgan Stanley

Growth Fund

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Morgan Stanley

A.C.E. Fund

(Across Capitalisations Equity Fund)

Morgan Stanley Mutual Fund

Annual Report (Abridged)

March 31, 2009

Morgan Stanley

Mutual Fund:

Morgan Stanley Mutual Fund

Trustees:

Dr. Abid Hussain

J. S. Bajjal

Dorab Sopariwala

Blair Pickerell

James Garrett

Schemes:

Morgan Stanley Growth Fund

Morgan Stanley A.C.E. Fund

Asset Management Company:

Morgan Stanley Investment Management Private Limited

Custodian:

JPMorgan Chase Bank

Registrar & Transfer Agent:

Karvy Computershare Private Limited

Legal Advisor:

J. Sagar Associates

Statutory Auditors:

Price Waterhouse

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Dear Unit Holder

At the start of 2008, very few people would have predicted that we were poised to enter perhaps the most difficult twelve month period in financial market history, and likewise at the beginning of 2009, even fewer would have predicted any recovery.

Having said that, we believe that the worst is now behind us, and the global economy will continue its slow and gradual path back to stability and growth. It is widely expected that China and India will take the lead in terms of economic revival and that will continue to have a positive impact on our markets in the medium term.

It is very heartening to note the investors have generally remained invested in equity schemes over this period, and this patience has been rewarded in some measure, by the sharp rally in equity markets this year. We would strongly recommend that you remain invested and committed to the long term, and avoid the temptation to 'book profits' or 'cut losses'.

At Morgan Stanley Mutual Fund, it has been an interesting twelve months. We started the financial year with the launch of our first open-ended multicap equity fund, Morgan Stanley A.C.E. Fund, and followed it up with the open ending of Morgan Stanley Growth Fund, our large cap oriented equity fund. We also launched two debt funds, Morgan Stanley Short Term Bond Fund and Morgan Stanley Active Bond Fund. Over the next year, our plan is to significantly increase the product offerings that we have, and continue to work on improving the consistency of our investment performance, the reach of our distribution network and efficiency of our customer service.

We would strongly encourage you to keep us informed on any changes to your investor profile such as bank account details, email id, etc. as that helps us reach you better, as well as improves the service delivery manifold. Recent changes in technology and infrastructure allow for a quantum change in service standards, and we need your help in terms of updated information to deliver this higher level of service.

Finally, we would request you to become an investor across our fund family. Our records show that most of our unit holders have investment in only one out of the four schemes we currently have, and we want you to consider all our schemes, the next time you invest in mutual funds.

Our long-term vision is to become the 'mutual fund of choice' for our unit holders. Whilst we have a long way to go in this regard, we have made reasonable strides in the last year, particularly in the area of customer service and investment performance.

Your support, feedback and continued patronage over the coming years will be much appreciated, and will go a long way in helping us achieve our long-term goal.

Thanking You,

With regards,



Anthony Heredia
Chief Executive Officer

Date: June 29, 2009

1. Scheme Performance, Future Outlook and Operations of the Schemes of Morgan Stanley Mutual Fund:

[a] Performance of Morgan Stanley Growth Fund [MSGF] vis-à-vis benchmark index as of March 31, 2009:

(Figures in %)

Period	MSGF Returns*	BSE 100
Absolute returns during the trailing year [(+) (-)]	-41.32	-39.97
Compounded Annualised Returns		
(i) Last 3 years	-12.45	-5.75
(ii) Last 5 years	9.06	10.75
(iii) Since inception [February 18, 1994]	9.90	6.52

Past performance may or may not be sustained in future, and may not necessarily provide basis for comparison with other investments.

*Performance of MSGF [Growth Option] has been calculated based on the assumption that all dividends during the period have been re-invested in the scheme at the then prevailing NAV. "Since Inception" returns are calculated on Rs. 10/- invested at inception.

For the 12 months ended March 31, 2009, the Scheme underperformed its Benchmark [BSE 100] by 1.35%. However, since inception, the Fund has outperformed its Benchmark by 3.38% [annualised]. In the year that passed by, from a sector allocation perspective the overweights in Consumer Discretionary and Consumer Staples contributed to performance while the underweight in Energy detracted from performance. From a stock selection perspective, positive alpha resulted from stocks within Industrials, Information Technology and Financials while stock selection in Energy, Consumer Discretionary and Materials dragged on performance.

Future Outlook for Morgan Stanley Growth Fund:

The correction that started in 2008 saw the markets grind lower all through the year. The correction precipitated into severe liquidity crunch, risk aversion and heightened volatility towards the end of the year. To counter the crisis, Central Banks across the world eased monetary policy. To add, Governments announced massive fiscal stimuli to kickstart investment and lending. Business conditions and economic indicators seem to have stabilized from the very low levels of late 2008, with financial commentators and media getting all too excited with the now over-used term "green shoots". Markets have rallied from their oversold levels as it appeared that the Developed World had averted a Great Depression scenario, and the strong monetary and fiscal stimuli had the force to create strong asset reflation across asset classes, if not a new bubble. How much further this rally can get fueled by easy liquidity, in an otherwise anemic global growth environment remains the key issue.

The BSE 100 has now rallied 80% from the March bottom and the beneficiaries have predominantly been stocks that fell out of favour in the phase of risk aversion or those that faced significant liquidity concerns. The unexpected emphatic mandate that the UPA Government received in the recently concluded general elections added to the market's upbeat mood with reforms expectations now gaining centre stage. However, we are now likely to revert to global cues to take us further from hereon.

From a portfolio standpoint though we are cautious in chasing beta but we scout for opportunities where underlying business fundamentals are improving and that is not yet fully reflected in valuations. We have not abandoned our consumption theme and continue to be overweight Consumer-related sectors. We opt to play the broader India story through Financials which remains our largest overweight. We remain cautious on Materials and Energy sector where we feel that global demand supply dynamics continue to pose headwinds to pricing and margins.

Operations of Morgan Stanley Growth Fund:

The Morgan Stanley Mutual Fund's flagship fund, Morgan Stanley Growth Fund which was launched as a close ended scheme in 1994 was converted into an open-ended fund with effect from January 19, 2009. The open ending of MSGF gave the investors the opportunity to continue with their investments in MSGF and avail advantages associated with open ended funds for e.g. daily subscriptions, redemptions, switches, Systematic Investment Plans, etc.

The Net Asset Value of MSGF, as on March 31, 2009 was Rs. 31.012 per unit for Growth Plan and Rs. 10.104 per unit for Dividend Plan [introduced effective January 19, 2009]. The Net Assets of MSGF as of March 31, 2009, were Rs.13,785 million with outstanding corpus of 446.39 million units. The net deficit for the year transferred from Revenue Reserve was Rs. 7,782.59 million as against surplus of Rs. 8,191.785 million last year.

There are no unit holders holding over 25% of the Net Asset Value of MSGF as of March 31, 2009.

REPORT FROM THE BOARD OF TRUSTEES (Contd.)

[b] Performance of Morgan Stanley A.C.E. [Across Capitalisations Equity] Fund [MSACE] vis-à-vis benchmark index as of March 31, 2009:

[Figures in %]

Period	MSACE Returns*	BSE 200
Since inception [April 3, 2008]	-38.42	-41.52

Past performance may or may not be sustained in future, and may not necessarily provide basis for comparison with other investments. *Absolute returns of MSACE [Growth Option] are computed. "Since Inception" returns are calculated on Rs. 10/- invested at inception. Since inception, the scheme has outperformed its benchmark (BSE 200) by 3.10%.

In the year passed by, from a sector allocation perspective, overweight in Banking and Consumer Staples and underweight in Materials and Real Estate helped performance while overweight in capital goods and underweight in Autos detracted from performance. Whereas, from a stock selection perspective, positive alpha resulted from stocks within Banking, Consumer Staples and Materials while stock selection in Energy and Capital Goods dragged on performance. Our higher allocation to mid caps had negative impact on performance in first half, which we corrected in October - December period.

Future outlook for Morgan Stanley A.C.E. Fund:

The political stability at the Centre and resurgence of risk appetite globally should provide India much needed foreign capital to put itself back on accelerated growth trajectory, correct the fiscal, and trade imbalances. Economic recovery and higher growth would have positive implication on corporate results, which are turning out to be largely better than expectations. The earnings upgrade cycle has already begun and hope is building for India to return to 15% earnings growth trajectory. Continuous upgrades in earnings cycle is one of the most important ingredients of a bull market and we have already started seeing signs of the same.

In terms of our portfolio, we see increasing attraction to mid & small caps, where valuations are still cheap and economic recovery would provide the platform for faster earnings improvement. Our multi-cap portfolio strategy allows us the flexibility of segment allocation based on our outlook and our allocation to mid-cap stocks has gone up. Going forward, we will continue to see a healthy mix of mid-caps in our portfolio allocation as our primary driver for alpha. In terms of sectors, we are overweight in Private Sector Banks, Power, Capital Goods, Pharmaceuticals and Consumer Staples. We are underweight Software Services, Oil Marketing Companies, and Real Estate Sector. We believe that for the next 12-15 months micro/company specific factors will dominate stock/portfolio returns and the reflection of the change would be visible in our portfolio allocation. On the balance, we believe, the portfolio is well positioned to give superior risk-adjusted returns in the forthcoming bull markets in Indian equities.

Operations of Morgan Stanley A.C.E. Fund:

During the year in April 08, the Morgan Stanley Mutual Fund launched MSACE Fund, an open ended equity scheme which proposes to generate long term capital growth from an actively managed portfolio of equity and equity-related securities including equity derivatives. The fund management approach of MSACE Fund is to be flexible across capitalizations and choose stocks/sectors/themes on individual merit.

The Net Asset Value of MSACE as on March 31, 2009 was Rs. 6.159 per unit for Growth and Dividend Plan. The Net assets of MSACE as of March 31, 2009, were Rs.742.21 million with outstanding corpus of 120.52 million units. The net deficit for the year transferred from Revenue Reserve was Rs. 439.09 million. Since the initial allotment date of the MSACE Fund is April 3, 2008, there are no corresponding numbers for the year ended March 31, 2008.

There are no unit holders holding over 25% of the Net Asset Value of MSACE Fund as of March 31, 2009.

2. Brief background of Sponsors, Trust, The Board of Trustees and The Board of Directors of AMC:

a. Morgan Stanley Mutual Fund:

Morgan Stanley Mutual Fund [MSMF] was set up as a Trust by the Settlor, Morgan Stanley on November 3, 1993 with the Board of Trustees as Trustees to MSMF in accordance with the provisions of the Indian Trust Act, 1882 and is duly registered under the Indian Registration Act, 1908. The Board of Trustees has entered into an Investment Management Agreement dated November 3, 1993 with Morgan Stanley Investment Management Pvt. Ltd. [the AMC] to function as the Investment Manager for all the Schemes of MSMF. MSMF was registered with SEBI on November 5, 1993 under Registration no. MF/005/93/1.

b. The Board of Trustees of Morgan Stanley Mutual Fund:

The Board of Trustees is the exclusive owner of the Trust Fund and holds the same in trust for the benefit of the unit holders. The Board of Trustees has been discharging its duties and carrying out the responsibilities as provided in the Regulations and the Trust Deed. The Board of Trustees seeks to ensure that the Fund and the Schemes floated thereunder are managed by the AMC in accordance with the Trust Deed, the Regulations, directions and guidelines issued by SEBI, Stock Exchanges, Association of Mutual Funds in India and other regulatory agencies.

REPORT FROM THE BOARD OF TRUSTEES (Contd.)

c. Morgan Stanley Investment Management Pvt. Ltd.:

Morgan Stanley Investment Management Pvt. Ltd. [MSIM] is a private limited company incorporated on October 12, 1993 under the Companies Act, 1956, having its Registered Office at 5th Floor, Forbes Building, Charanjit Rai Marg, Mumbai 400 001. MSIM has been appointed as the Asset Management Company for Morgan Stanley Mutual Fund by the Board of Trustees vide Investment Management Agreement dated November 3, 1993 executed between the Board of Trustees and MSIM.

3. Investment Objectives of the Schemes:

[a] Investment objectives of Morgan Stanley Growth Fund:

The investment objective of the scheme is to achieve long-term capital appreciation by investing primarily in equity and equity related securities of companies having large market capitalization#.

#For the purpose of this Scheme, any company having a minimum threshold limit of market capitalization which is equal to or more than the market capitalization of the 100th stock in BSE 100, as on the date of investment shall qualify as Large Cap Company.

[b] Investment objectives of Morgan Stanley A.C.E. Fund:

To generate long-term capital growth from an actively managed portfolio of equity and equity-related securities including equity derivatives.

4. Significant Accounting Policies:

Accounting policies are in accordance with Securities and Exchange Board of India [Mutual Funds] Regulations, 1996, and there was no deviation from the same.

5. Unclaimed Dividends & Redemptions:

Scheme Name	Unclaimed Dividends		Unclaimed Redemptions	
	Amount (Rs.)	No. of Investors	Amount (Rs.)	No. of Investors
Morgan Stanley Growth Fund	140,833,711	387,588	Nil	Nil
Morgan Stanley A.C.E. Fund	Nil	Nil	Nil	Nil

6. Statutory Information:

- The Sponsors are not responsible or liable for any loss resulting from the operations of the Schemes of the Fund beyond their initial contribution of Rs. 5 lacs for setting up the Fund, and such other accretions/additions to the same.
- The price and redemption value of the units, and income from them, can go up as well as down with fluctuations in the market value of its underlying investments.
- Full Annual Report shall be disclosed on the website www.morganstanley.com/indiamf and shall be available for inspection at the Head Office of the mutual fund. Present and prospective unit holder can obtain copy of the Trust Deed, the full Annual Report of the Fund/AMC at a price.

For & on behalf of
The Board of Trustees of Morgan Stanley Mutual Fund

Sd/-

Dr. Abid Hussain
Chairman

June 29, 2009

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, 2009 and, the related Revenue Account for the year ended on that date annexed thereto, and the Cash Flow Statement for the year ended on that date 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 and unit capital balances as at March 31, 2009 by correspondence with the custodian / others and registrar and transfer agent respectively. 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, the Revenue Account and the Cash Flow Statement 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, the Revenue Account and the Cash Flow Statement 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, 2009 its net deficit and its cash flows for the year on that date.
 - (ii) The Balance Sheet as at March 31, 2009, 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 method used to value privately placed equity shares in accordance with the guidelines for valuation of unlisted equity shares for Mutual Funds dated May 9, 2002 issued by SEBI; as at March 31, 2009 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.

Sd/-

Vilas Y. Rane

Partner

M. No. F/33220

For and on behalf of

PRICE WATERHOUSE

Chartered Accountants

Mumbai

June 29, 2009