

STATEMENT OF ADDITIONAL INFORMATION

Of

Morgan Stanley Mutual Fund

Investment Manager

Morgan Stanley Investment Management Private Limited

Trustee

Board of Trustees

Registered Office

18F/19F, Tower 2, One Indiabulls Centre,
841, Senapati Bapat Marg, Mumbai 400 013
Tel (91) 22 6118 1000 Fax (91) 22 6118 1027
www.morganstanley.com/indiamf

SPONSOR

Morgan Stanley
Principal place of business:
1585, Broadway,
New York, 10036
United States of America.

BOARD OF TRUSTEES

Dr. Abid Hussain
Mr. Jagdish Baijal
Mr. Dorab R. Sopariwala
Mr. Paul Martin

ASSET MANAGEMENT COMPANY

Morgan Stanley Investment Management Private Limited
19th Floor, One Indiabulls Centre, Tower 2,
Jupiter Mills Compound, Elphinstone Road,
Mumbai 400 013

REGISTRAR AND TRANSFER AGENT

Karvy Computershare Private Limited
Karvy Registry House
Unit: Morgan Stanley Mutual Fund
21, Avenue 4, Street no.1, Banjara Hills,
Hyderabad – 500 034

CUSTODIAN

JPMorgan Chase Bank
6th floor, Paradigm B wing,
MindSPACE, Mumbai – 400 064

AUDITORS TO THE MUTUAL FUND

Price Waterhouse
252, Veer Savarkar Marg,
Shivaji Park, Mumbai 400 028.

LEGAL ADVISORS

J. Sagar Associates
Advocates & Solicitors
Vakils House, 18 Sprott Road,
Ballard Estate,
Mumbai 400 001.

INDEX

I. INFORMATION ABOUT SPONSOR, AMC AND TRUSTEE COMPANIES.....	4
A. Constitution of the Mutual Fund.....	4
B. Sponsor.....	4
C. The Board of Trustees.....	4
a) General Due Diligence:.....	7
b) Specific Due Diligence:.....	8
c) Trustee – Fees and Expenses:.....	8
d) Trustee - Supervisory Role:.....	8
D. Asset Management Company.....	9
E. Service providers.....	13
F. Condensed Financial Information (CFI) of the Schemes launched by the Mutual Fund during the last three financial years:.....	15
II. HOW TO APPLY?	16
III. RIGHTS OF UNITHOLDERS OF THE SCHEME.....	19
IV. TAX & LEGAL & GENERAL INFORMATION.....	30
I) Taxation on investing in Mutual Funds.....	30
A) TAX IMPLICATIONS TO UNIT HOLDERS.....	30
B) TAX IMPLICATIONS FOR THE FUND.....	33
D) Taxation on investing in Mutual Funds.....	33
C) TAX IMPLICATIONS TO UNIT HOLDERS.....	33
D) TAX IMPLICATIONS FOR THE FUND.....	37
II) Legal Information.....	39
[1] Nomination Facility:.....	39
[3] Anti Money Laundering and Know Your Customer (KYC):.....	41
[4] Listing and Transfer of Units:.....	44
[5] Transferability of units held in demat form:.....	44
[6] Transmission of Units:.....	44
[7] Duration of the Scheme [Open Ended Schemes]:.....	45
[8] Procedure and manner of Winding Up:.....	46
III) General Information.....	46
[1] Inter-Scheme Transfer of Investments:.....	46
[2] Associate Transactions:.....	46
[3] Documents Available for Inspection:.....	49
[4] Investor Grievances Redressal Mechanism:.....	49
[5] Securities Lending by the Mutual Fund:.....	51
[6] Borrowing by the Mutual Fund:.....	51
[7] Underwriting by the Mutual Fund:.....	51

STATEMENT OF ADDITIONAL INFORMATION (SAI)

This Statement of Additional Information (SAI) contains details of Morgan Stanley Mutual Fund, its constitution, and certain tax, legal and general information. It is incorporated by reference (is legally a part of the Scheme Information Document).

This SAI is dated December 31, 2011.

I. INFORMATION ABOUT SPONSOR, AMC AND TRUSTEE COMPANIES

A. Constitution of the Mutual Fund

Morgan Stanley (the “Mutual Fund”) has been constituted as a trust on November 3, 1993 in accordance with the provisions of the Indian Trusts Act, 1882 (2 of 1882) with Morgan Stanley, as the Sponsor and the Board of Trustees as Trustees to the Fund. The Trust Deed has been registered under the Indian Registration Act, 1908. The Mutual Fund was registered with SEBI on November 5, 1993 under Registration Code MF/005/93/1.

B. Sponsor

Morgan Stanley Mutual Fund is sponsored by Morgan Stanley, a corporation organised and existing under the laws of the State of Delaware, United States of America, with its principal place of business at 1251, Avenue of the Americas, New York, 10020, United States of America. Morgan Stanley is one of the global financial services firms, which through its subsidiaries serve a diversified group of corporations, governments, financial institutions and individuals. Morgan Stanley is one of the world’s largest diversified financial services companies with nearly 48,256 people employed in 600 offices across 33 countries. Morgan Stanley provides wide spectrum of financial & advisory services and its operations span across North America, Asia, Europe and Latin America.

Morgan Stanley is a worldwide leader in investment banking and is ranked among the top institutions in the mergers and acquisitions, underwriting of equity and equity-related transactions, high yield debt financing and corporate debt issuance. It has major presence in every major securities market, with traders in numerous countries around the world offering a unique distribution and breadth of products.

Morgan Stanley is a predominant player in the following segments of the financial services industry apart from its virtually unmatched origination and distribution skills:

- Securities
- Investment Management
- Credit Services and
- Investment Banking

Morgan Stanley being the Sponsor is the Settler of the Mutual Fund Trust. The Sponsor has entrusted a sum of Rs. 5 lacs to the Board of Trustees as the initial contribution towards the corpus of the Mutual Fund. Below are the details of its financial performance for past three years:

[Amount in US \$ million]

Particulars	Year ended December 2010	Year ended December 2009	Year ended November 2008
Net Worth	57,211	46,688	50,831
Total Income	38,036	30,070	62,262
Profit after tax	4,703	1,346	1,707
Total Assets Under Management by MS (in US \$ billion)	756	645	415

C. The Board of Trustees

The Board of Trustees vide Trust Deed dated November 03, 1993 have been appointed as the Trustees to manage and supervise the functioning of Morgan Stanley Mutual Fund set up as a Trust in accordance with

Morgan Stanley

Indian Trust Act, 1882 and SEBI (Mutual Fund) Regulations, 1996 as amended from time to time. The details of the Board of Trustees of Morgan Stanley Mutual Fund are as under:

Details of Trustee Directors:

Name	Age/Qualification	Brief Experience
Dr. Abid Hussain (Independent Trustee)	85 years Retired Officer I.A.S.	<p>Dr. Abid Hussain is currently a Member of The International Panel on Democracy and Development of UNESCO and Professor Emeritus at the Indian Institute of Foreign Trade (IIFT) as well as Professor Emeritus at the Foreign Service Institute of the Ministry of External Affairs, Govt. of India. He is a member of the Academy of the Kingdom of Morocco, and B.P. Koirala Foundation, Kathmandu. He was the Trustee of Indira Gandhi National Centre for the Arts Trust; President of Katha, Chairman of Research Council of National Institute of Science, Technology and Development Studies (CSIR); India-China Economic & Cultural Council; Bharatiya Vidya Bhavan, Gautam Buddha Nagar (NOIDA) Kendra, Member of Board of Trustees of Observer Research Foundation and several other educational and cultural organizations. He is a member of the Nehru Memorial Fund; the Population Foundation of India: Foundation for Academic Excellence & Access; Administrative Staff College, Hyderabad; Shankar Lal Murali Dhar Memorial Society; and the Governing Council of Ranbaxy Science Foundation. He has been a member of the Indian Administrative Service and served in various capacities at the Centre. He was Secretary, Ministry of Heavy Industries, Commerce Secretary, Government of India and Chairman, IIFT. He became Member, Planning Commission in 1985. Later on, he became India's Ambassador to the United States of America. In the year 1988, he was honored with PADMA BHUSHAN for meritorious services. Thereafter, he became Vice Chairman, Rajiv Gandhi Foundation, New Delhi, and was also the Chancellor of Central University, Hyderabad.</p> <p>Dr. Hussain has presided over several national and international Conferences and contributed papers on contemporary issues. Dr. Hussain had chaired six important committees set up by the Government of India, namely, Trade Policy Reforms; Project Exports; CSIR Review Committee for Development of Science and Technology; Textile Policy of the Government of India; Development of Capital Market; and Abid Hussain Committee on Small Scale Industries.</p>
Mr. Jagdish S. Baijal (Independent Trustee)	80 years M.A. in Economics	<p>Mr. Baijal did his M.A. in Economics and joined I.A.S in 1954. After serving in many senior government positions in the state and centre, including Finance Secretary at the State level, Minister Economic, Embassy of India Washington D.C., Additional Secretary Ministry of Finance, Government of India in charge of external finance, he retired as Secretary Planning Commission Government of India in 1989. During his tenure with the Government of India he was involved in many International Economic negotiations. Subsequently, he joined the Board of Directors of the World Bank Group as Executive Director. From 1993 onwards he has been a non executive director in several major Indian Companies including State Bank of India and HDFC Bank. He has also spent one academic year in Harvard University as a Senior Fellow.</p>
Mr. Dorab Sopariwala (Independent Trustee)	70 years B.Sc. (Econ.), London School of Economics and	<p>He worked with Metra Consulting Group, London (1966-1972), the Indian Market Research Bureau (1972-1983) where he rose to be Deputy Chief Executive and MARG Marketing & Research Group Pvt. Ltd. (1983-1994), where he was the Founder Managing Director.</p>

	M.Sc. (Engg.), Imperial College of Science and Technology	From 1994 to 2004, he was successively on the Board of MARG Marketing & Research Group Pvt. Ltd., ORG-MARG Pvt. Ltd. and A.C. Nielsen ORG-MARG Pvt. Ltd. From 1996 to 2003, he served on the India Advisory Board of Citibank N.A. Between 1994 and 2004, he served as a member of the Board of Governors of the Advertising Standards Council of India (ASCI), including two terms as Chairman of ASCI. Since 1994, he has been a consultant / advisor to companies in the fields of media, communication and financial services.
Mr. Paul Martin (Associate Trustee)	53 years B.S.B.A. in Finance from Georgetown University, M.B.A. in finance from New York University.	At present, Mr. Paul Martin is the Head of Global Operations for Morgan Stanley Investment Management [MSIM] in the U.S. Mr. Martin has a long relationship of over 25 years with Morgan Stanley. He holds a B.S.B.A degree in Finance from Georgetown University and an M.B.A. in finance from New York University.

Under the Trust Deed dated November 3, 1993 made by and between the Sponsor and the Board of Trustees, establishing Morgan Stanley Mutual Fund, as amended from time to time and in terms of the SEBI Regulations the rights and obligations of the Trustees are as follows :-

- a) The Board of Trustees shall ensure before the launch of any scheme that the asset management company has:
 - i) systems in place for its back office, dealing room and accounting,
 - ii) appointed all key personnel including fund manager(s) for the scheme(s) and market, to the Board of Trustees, within fifteen days of their appointment, submitted their bio-data, which shall contain the educational qualifications, past experience in the securities
 - iii) appointed auditors to audit the accounts,
 - iv) appointed a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions etc. issued by SEBI or the Central Government and for redressal of investor's grievances,
 - v) appointed registrars and laid down parameters for their supervision,
 - vi) prepared a compliance manual and designed internal control mechanisms including internal audit systems,
 - vii) specified norms for empanelment of brokers and marketing agents.
- b) The Board of Trustees shall obtain consent of the unit holders of the Scheme(s):
 - i) When the Board of Trustees is required to do so by SEBI in the interests of the unit holders; or
 - ii) Upon the request of three-fourths of the unit holders of any scheme(s) under the Mutual Fund; or
 - iii) If a majority of the Board of Trustees decide to wind up the scheme(s) or prematurely redeem the units
- c) In carrying out his/her responsibilities as a member of the Board of Trustees each Trustee shall maintain an arms' length relationship with other companies, or institutions or financial intermediaries or any body corporate with which he may be associated in any transaction also involving the Mutual Fund.
- d) No Trustee shall participate in the meetings of the Board of Trustees when any decisions for investments in which he / she may be interested are taken.
- e) All the Trustees shall furnish to the Board of Trustees, particulars of interest which he/she may have in any other company, or institution or financial intermediary or any corporate by virtue of his/her position as director, partner or with which he-she may be associated in any other capacity.
- f) The Board of Trustees shall have the right to obtain from the AMC such information as is considered necessary by the Board of Trustees.
- g) The Board of Trustees shall ensure that the AMC has been diligent in empanelling brokers, in monitoring securities transactions with brokers and avoiding undue concentration of business with any broker.

- h) The Board of Trustees shall ensure that the AMC has not given any undue or unfair advantage to any associates or dealt with any of the associates of the AMC in any manner detrimental to the interest of unit holders.
- i) The Board of Trustees shall ensure that the transactions entered into by the AMC are in accordance with the SEBI Regulations and the Scheme.
- j) The Board of Trustees shall ensure that the AMC has been managing the Scheme independently of other activities and have taken adequate steps to ensure that the interest of the Scheme are not being compromised with those of any other Scheme or of other activities of the AMC.
- k) The Board of Trustees shall ensure that all the activities of the AMC are in accordance with the provisions of SEBI Regulations.
- l) Where the Board of Trustees has reason to believe that the conduct of business of the Mutual Fund is not in accordance with SEBI Regulations, they shall forthwith take remedial steps as are considered necessary by them and shall inform the SEBI of the violation and the action taken by them.
- m) Each Board of Trustees shall file the details of his/her transactions in securities on a quarterly basis with the trust.
- n) The Board of Trustees shall be accountable for, and be the custodian of, the funds and property of the Scheme and shall hold the same in trust for the benefit of the unit holders in accordance with SEBI Regulations and the provisions of the trust deed.
- o) The Board of Trustees shall take steps to ensure that the transactions of the Mutual Fund are in accordance with the trust deed.
- p) The Board of Trustees shall be responsible for the calculation of any income due to be paid to the Mutual Fund and also of any income received in the Mutual Fund for the holders of the units of the Scheme in accordance with the SEBI Regulations and the trust deed.
- q) The Board of Trustees shall call for the transactions in securities of the key personnel of the AMC in his own name or on behalf of the AMC and shall report to SEBI as and when required.
- r) The Board of Trustees shall review, on a quarterly basis, all transactions carried out between the Mutual Fund, AMC and its associates.
- s) The Board of Trustees shall review the net worth of the AMC on a quarterly basis and in case of any shortfall, ensure that the AMC make up for the shortfall as per clause (f) of sub-regulation (1) of regulation 21 of the SEBI Regulations.
- t) The Board of Trustees shall periodically review all service contracts such as custody arrangements, transfer agency and satisfy itself that such contracts are executed in the interest of the unit holders.
- u) The Board of Trustees shall ensure that there is no conflict of interest between the manner of deployment of its net worth by the AMC and the interests of the unit holders.
- v) The Board of Trustees shall periodically review the investor complaints received and the redressal of the same by the AMC.
- w) The Trust Deed can be amended only with the prior approval of SEBI and Unit holders, where it affects the interests of the unit holders.

Modifications, if any, in the rights and/or obligations and duties of the Board of Trustees are on account of amendments to the Regulations and the Regulations supersede/override the provisions of the Trust Deed, wherever the two are in conflict.

The Trustees shall exercise due diligence as under:

a) General Due Diligence:

- (i) The Trustees shall be discerning in the appointment of the key personnel of the Asset Management Company.
- (ii) The Trustees shall review the desirability or continuance of the Asset Management Company if substantial irregularities are observed in any of the Schemes and shall not allow the Asset Management Company to float new schemes.

- (iii) The Trustees shall ensure that the Trust Property is properly protected, held and administered by proper persons and by a proper number of such persons.
- (iv) The Trustees shall ensure that all service providers hold appropriate registrations from SEBI or concerned regulatory authorities.
- (v) The Trustees shall arrange for test checks of service contracts.
- (vi) The Trustees shall report to SEBI of any special developments in the Mutual Fund.

b) Specific Due Diligence:

- (i) Obtain compliance certificates at regular intervals from the AMC.
- (ii) Consider the reports of the independent auditor and compliance reports of the AMC at the meetings of trustees for appropriate action.
- (iii) Maintain records of the decisions of the Trustee at their meetings and of the minutes of the meetings.
- (iv) Prescribe and adhere to a code of ethics by the Trustee, AMC and its personnel.
- (v) Communicate in writing to the AMC of the deficiencies and checking on the rectification of deficiencies.

The Independent Directors of the AMC or the Independent Trustees shall pay specific attention to the following, as may be applicable, namely:

- (i) The Investment Management Agreement and the compensation paid under the agreement.
- (ii) Service contracts with affiliates - whether the AMC has charged higher fees than outside contractors for the same services.
- (iii) Selection of the AMC's independent directors.
- (iv) Securities transactions involving affiliates to the extent such transactions are permitted.
- (v) Selecting and nominating individuals to fill independent directors' vacancies.
- (vi) Code of ethics must be designed to prevent fraudulent, deceptive or manipulative practices by insiders in connection with personal securities transactions.
- (vii) The reasonableness of fees paid to the Sponsor, AMC and any others for services provided.
- (viii) Principal underwriting contracts and their renewals.
- (ix) Any service contract with the associates of the AMC.
- (x) Report received from the AMC regarding the investments by the mutual fund in the securities of group companies of the sponsor.

Notwithstanding anything contained in the SEBI Regulations 18(1) to 18(25), the Trustee shall not be held liable for acts done in good faith if they have exercised due diligence honestly.

c) Trustee – Fees and Expenses:

In accordance with the agreement dated November 3, 1993 between Morgan Stanley (“the Settlor”) and the Board of Trustees, the Fund has paid or provided for an annual fee of the rupee equivalent of US\$ 5,000 and a fee of the rupee equivalent of US\$ 500 per meeting attended to each of the Trustees not affiliated with the Settlor.

d) Trustee - Supervisory Role:

The supervisory role of the Trustees will be discharged by reviewing the information and the operations of the Fund based on the reports submitted at the meetings of the Trustees. Presently, the Board of Trustees are required to hold a meeting at least once in 2 calendar months and at least 6 such meetings are required to be held every year. The Board met 6 times in f.y. 2009-2010, and from April 1, 2010 onwards, the Board has met 6 times up to the date of this document. The Audit Committee, comprising of 3 Trustees, with an independent trustee as its chairman, has been constituted pursuant to the SEBI circular MFD/CIR/010/024/2000 dated January 17, 2000 to inter alia, review internal audit systems and various reports placed before it.

D. Asset Management Company

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

Shareholding Pattern of the AMC

The Shareholding pattern of the AMC as on September 30, 2011 is as follows:-

Name of the Shareholder	Number of Equity Shares of Rs. 10/- each	Percentage [rounded off]
Morgan Stanley Mauritius Company Limited	15,668,602	99.99
Satish Savla	2	0.00
Mr. Vinod Sethi	1	0.00
Total	15,668,605	100

Details of AMC Directors:

Name	Age/Qualification	Brief Experience
Mr. Narayan Ramachandran [Associate Director]	53 years B. Tech., M.B.A., C.F.A.	Narayan joined Morgan Stanley Investment Management in 1996 as Executive Director at New York. Subsequently, he worked as the Head and co-lead portfolio manager of Morgan Stanley's Global Emerging Markets and Global Asset Allocation teams from 1996 to August 2006 in New York and Singapore. Narayan was subsequently designated as the Country Head for Morgan Stanley in India up to March 2010 and currently is a Senior Advisor to Morgan Stanley. He has over 20 years of investment experience and holds the CFA designation. Prior to joining Morgan Stanley, he was a managing director at Rogers Casey (now CRA Rogers Casey) from 1988 to 1996. In addition, Narayan was director of research at RogersCasey and president of its investment advisory subsidiary from 1991 to 1996. Previously, he was a research associate at Goldman Sachs from 1987 to 1988. Additionally, He writes articles for the academic and trade press, and is a frequent speaker at industry conferences.
Mr. Anthony Heredia Chief Executive Officer	39 years B. Com., A.C.A.	Anthony joined Morgan Stanley Investment Management Private Limited as Head of Sales and Marketing in February 2007. Prior to joining Morgan Stanley, he worked for HSBC Asset Management (India) Private Limited as Head of Sales and Distribution from December 2001 to February 2007 and in Birla SunLife Asset Management Company as Assistant Vice President – Business Development from October 1995 to November 2001. He has over 10 years experience in sales and distribution.
Mr. Sanjay Asher, [Independent Director]	47 years Solicitor, Incorporated Law Society, A.C.A.	Mr. Asher had joined M/s. Crawford Bailey & Co. in Dec 1989 as an Associate and became an equity partner in Jan 2001. Some of the work undertaken by him are as under : He has advised and acted as a legal counsel to the Government of India in respect of disinvestment of, namely, Videsh Sanchar Nigam Limited ("VSNL"), National Aluminum Company Limited ("NALCO"), Oil and Natural Gas Corporation Limited ("ONGC"), etc.

		<p>He has also advised large private corporations in the privatization of various government owned companies, namely, Air India, Indian Airlines, etc.</p> <p>He has also advised several initial public offerings including, ONGC Limited, Maruti Limited, Allahabad Bank Limited, Meghmani Organics Limited – listing in Singapore, etc.</p> <p>Mr. Asher was an invitee to the committee formed by the Government of India, Department of Disinvestment for the purposes of standardizing the transaction documents in relation to privatization of the public sector enterprises of the Government of India. He is also a member of the committee in respect of Indo-US Financial Institutions Reforms and Expansion Projects – Capital Markets for the purpose of development of securities law bar and the securities law course in India.</p>
<p>Mr. Nagesh Alai [Independent Director]</p>	<p>53 years M.Com, LL.B, AICWA, ACS</p>	<p>Mr. Alai is the Chief Financial Officer, Asia Pacific & Africa of DRAFTFCB Worldwide (2007 till date). He is also a Director on the Board of DRAFTFCB-ULKA Advertising Pvt. Ltd. and Interface Communications Pvt. Ltd. He also served as Executive Director, Group CFO and Counsel, DRAFTFCB-ULKA Group (1990-2007). Prior to that he worked as Chief Accountant and Secretary, John Wyeth (India) Limited, a US pharma multinational company.</p> <p>He has more than 3 decades of work experience across various functions namely, finance, accounting & auditing, business plan & budgeting, system & process studies and implementation of operating manuals, corporate laws and company secretarial practices, corporate governance, HR and administrative policies.</p>

Duties and obligations of Asset Management Company:

- (1) The asset management company shall take all reasonable steps and exercise due diligence to ensure that the investment of funds pertaining to any scheme is not contrary to the provisions of Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 as amended from time to time [“the regulations”] and the trust deed.
- (2) The asset management company shall exercise due diligence and care in all its investment decisions as would be exercised by other persons engaged in the same business.
- (3) The asset management company shall be responsible for the acts of commission or omission by its employees or the persons whose services have been procured by the asset management company.
- (4) The asset management company shall submit to the trustees a quarterly report on its activities and the compliance with the regulations.
- (5) The trustees at the request of the asset management company may terminate the assignment of the asset management company at any time:
Provided that such termination shall become effective only after the trustees have accepted the termination of assignment and communicated their decision in writing to the asset management company.
- (6) Notwithstanding anything contained in any contract or agreement or termination, the asset management company or its directors or other officers shall not be absolved of liability to the mutual fund for their acts of commission or omission, while holding such position or office.

(6A) The Chief Executive Officer (whatever his designation may be) of the asset management company shall ensure that the mutual fund complies with all the provisions of the regulations and the guidelines or circulars issued in relation thereto from time to time and that the investments made by the fund managers are in the interest of the unit holders and shall also be responsible for the overall risk management function of the mutual fund.

(6B) The fund managers (whatever the designation may be) shall ensure that the funds of the schemes are invested to achieve the objectives of the scheme and in the interest of the unit holders.

(7)(a) An asset management company shall not through any broker associated with the sponsor, purchase or sell securities, which is average of 5 per cent or more of the aggregate purchases and sale of securities made by the mutual fund in all its schemes :

Provided that for the purpose of this sub-regulation, the aggregate purchase and sale of securities shall exclude sale and distribution of units issued by the mutual fund:

Provided further that the aforesaid limit of 5 per cent shall apply for a block of any three months.

(b) An asset management company shall not purchase or sell securities through any broker [other than a broker referred to in clause (a) of sub-regulation (7)] which is average of 5 per cent or more of the aggregate purchases and sale of securities made by the mutual fund in all its schemes, unless the asset management company has recorded in writing the justification for exceeding the limit of 5 per cent and reports of all such investments are sent to the trustees on a quarterly basis:

Provided that the aforesaid limit shall apply for a block of three months.

(8) An asset management company shall not utilize the services of the sponsor or any of its associates, employees or their relatives, for the purpose of any securities transaction and distribution and sale of securities.

Provided that an asset management company may utilize such services if disclosure to that effect is made to the unit holders and the brokerage or commission paid is also disclosed in the half-yearly annual accounts of the mutual fund.

Provided further that the mutual funds shall disclose at the time of declaring half-yearly and yearly results.

(b) any underwriting obligations undertaken by the schemes of the mutual funds with respect to issue of securities associate companies:

(i) devolvement, if any,

(ii) subscription by the schemes in the issues lead managed by associate companies,

(iv) subscription to any issue of equity or debt on private placement basis where the sponsor or its associate companies have acted as arranger or manager.

(9) The asset management company shall file with the trustees the details of transactions in securities by the key personnel of the asset management company in their own name or on behalf of the asset management company and shall also report to the Board, as and when required by the Board.

(10) In case the asset management company enters into any securities transactions with any of its associates a report to that effect shall be sent to the trustees at its next meeting.

(11) In case any company has invested more than 5 per cent of the net asset value of a scheme, the investment made by that scheme or by any other scheme of the same mutual fund in that company or its subsidiaries shall be brought to the notice of the trustees by the asset management company and be disclosed in the half-yearly and annual accounts of the respective schemes with justification for such investment 40 [provided the latter investment has been made within one year of the date of the former investment calculated on either side].

(12) The asset management company shall file with the trustees and the Board—

(a) detailed bio-data of all its directors along with their interest in other companies within fifteen days of their appointment;

(b) any change in the interests of directors every six months; and

(c) a quarterly report to the trustees giving details and adequate justification about the purchase and sale of the securities of the group companies of the sponsor or the asset management company, as the case may be, by the mutual fund during the said quarter.

(13) Each director of the asset management company shall file the details of his transactions of dealing in securities with the trustees on a quarterly basis in accordance with guidelines issued by the Board.

(14) The asset management company shall not appoint any person as key personnel who has been found guilty of any economic offence or involved in violation of securities laws.

(15) The asset management company shall appoint registrars and share transfer agents who are registered with the Board:

Provided if the work relating to the transfer of units is processed in-house, the charges at competitive market rates may be debited to the scheme and for rates higher than the competitive market rates, prior approval of the trustees shall be obtained and reasons for charging higher rates shall be disclosed in the annual accounts.

(16) The asset management company shall abide by the Code of Conduct as specified in the Fifth Schedule.

Information on Key Personnel:

Name/Designation	Age/Qualification	Brief Experience
Mr. Anthony Heredia Chief Executive Officer	39 years B. Com., A.C.A.	Anthony joined Morgan Stanley Investment Management Private Limited as Head of Sales and Marketing in February 2007. Prior to joining Morgan Stanley, he worked for HSBC Asset Management (India) Private Limited as Head of Sales and Distribution from December 2001 to February 2007 and in Birla SunLife Asset Management Company as Assistant Vice President – Business Development from October 1995 to November 2001. He has over 10 years experience in sales and distribution.
Mr. Joseph Clifford D'souza Managing Director & Chief Operations Officer	49 years M.Com	Joseph Clifford D'Souza joined Morgan Stanley Investment Management in December 1993 as Operations Manager. Clifford was appointed as Vice-President and Head of Operations in December 1997 and was promoted to Executive Director in December 2000. In June 2005, Clifford was appointed Chief Operations Officer of MSIM Mumbai and Managing Director in December 2007. Clifford has over 20 years of experience in the Investment Management Industry. Prior to joining Morgan Stanley, Clifford was a Deputy Manager at Unit Trust of India Investment Advisory Services Limited– a subsidiary of the Unit Trust of India – the largest public sector Mutual Fund in India. He was responsible for the Operations and Fund Administration functions for the India Growth Fund Inc (listed on NYSE) and the India Fund (listed on Dublin) – both offshore funds investing in India. Clifford graduated from the Bombay University with a Master of Commerce Degree in 1984.
Ms. Sonali Bendke Vice President	35 years B.Com, A.C.S.	Sonali joined Morgan Stanley Investment Management Pvt. Ltd. as Vice President-Legal & Compliance in October 2007. Prior to joining Morgan Stanley, she worked for Principal PNB Asset Management Company Pvt. Ltd. as Company Secretary & Compliance Officer from May 2004 to October 2007, and in Reliance Capital Asset Management Company Ltd. from August 2001 to May 2004. She has over 10 years experience in Legal, Compliance and Corporate Secretarial area.
Mr. Sidhartha Gupta Investor Relations Officer	37 years B. Com, C.A.	Sidhartha joined Morgan Stanley Investment Management Pvt. Ltd. as an Associate in December 2003. Prior to joining Morgan Stanley Investment Management, he worked with

Morgan Stanley

		ING Investment Management in their operations division. He has over 6 years of experience in Mutual Fund industry.
Mr. Sridhar Sivaram Lead Portfolio Manager – Equity	41 years B.Com, A.C.A., A.C.S.	Sridhar joined Morgan Stanley Investment Management Private Limited in 1994. He has been working with the Investment Team since 1995. Subsequently, in 2004 he was appointed as the Portfolio Manager of Morgan Stanley Growth Fund. He has over 13 years of investment experience. Prior to joining Morgan Stanley, he worked with Citibank N.A. as Assistant Manager from October 1992 to March 1994 and with ANZ Grindlays Bank as an Industrial Trainee from April 1991 to September 1992.
Mr. Amay Hattangadi Lead Portfolio Manager –Equity	37 years B.Com, A.C.A., C.F.A.	Amay joined Morgan Stanley Investment Management Private Limited as an Analyst in 1997. He was appointed as the Portfolio Manager of Morgan Stanley Growth Fund in 2004. He has over 8 years of investment experience.
Mr. Jayesh Gandhi Lead Portfolio Manager – Equity	43 years C.A., C.F.A., Master of International Management	Jayesh joined Morgan Stanley Investment Management Private Limited as part of the Investment Team in August 2007. Prior to joining Morgan Stanley, he worked with Birla Sun Life Asset Management Company Ltd from September 2004 to July 2007 and was the designated Fund Manager of certain equity funds. He worked with Zacks Investment Research, Chicago, USA, Think Values, Salt Lake City, USA, J V Gokal Finance & Investments Private Limited, J M Shares and Stock Brokers and Dalal Street Communication. He has over 12 years of experience in investment management and equity research.
Mr. Ritesh Jain Lead Portfolio Manager – Fixed Income	37 years PGDBA, B.Com	Ritesh joined Morgan Stanley Investment Management Private Limited as a part of the Investment Team in March 2009. Prior to joining Morgan Stanley, he worked with Principal PNB Asset Management Company Pvt. Ltd. where he headed Fixed Income managing around Rs. 6000 crore under different fixed income plans. Ritesh holds a PGDBA from K.J. Somaiya Institute of Management Studies & Research, Mumbai and B.Com (Hons.) from University of Calcutta. He has over 13 years of experience in investment management.
Mr. Swanand Kelkar Portfolio Manager – Foreign Securities- Equites	32 years B.COM., A.C.A., PGDM (IIM-A)	Swanand has about 7 years of experience in equities research in investment management. Prior to joining Morgan Stanley Investment Management in August 2007, Swanand has worked with HSBC Asset Management Pvt. Ltd. and Fidelity Business Services India Pvt. Ltd.
Mr. Piyush Baranwal Portfolio Manager – Foreign Securities- Fixed Income	27 years PGDBM, B.E., CFA Level - 2	Piyush has about 4 years of experience in as a Fixed Income trader and credit analysis in investment management. Prior to joining Morgan Stanley Investment Management in January 2011, Piyush has worked with Principal PNB Asset Management Company Pvt Ltd.

E. Service providers

Custodian

J P Morgan Chase Bank Mumbai has been appointed as custodian (the Custodian) of the Schemes. The Custodian has been registered with SEBI and has been awarded registration no IN/CUS/014 dated November 10, 1998.

Transfer agent

[a] Karvy Computershare Private Limited ("Karvy") has been appointed to act as registrar and transfer agent to the Scheme in accordance with the Registrar and Transfer Agent Agreement dated September 20, 1996.

Principal Business Address: Karvy Registry House, 21, Avenue 4, Street No. 1, Banjara Hills, Hyderabad 500 034.

[b] The Registrar is registered with SEBI under the SEBI (Registrar and Transfer Agents) Regulations, 1993 vide registration no. INR000000221.

The Board of the Trustees and the AMC has ensured that the Registrar has adequate capacity to discharge responsibilities with regard to processing of applications and dispatching unit certificates to unit holders within the time limit prescribed in the Regulations and also has sufficient capacity to handle investor complaints.

Dividend paying agents:

[1] Standard Chartered Bank,
Ground Floor, 270,
Dr. D. N. Road,
Fort, Mumbai 400 001

[2] HDFC Bank Ltd,
Maneckji Wadia Bldg, Ground Floor,
Nanik Motwani Marg, Fort, Mumbai 400 001

Statutory auditors:

Price Waterhouse, Chartered Accountants,
252, Veer Savarkar Marg,
Shivaji Park, Mumbai - 400 028.

Legal counsel:

J. Sagar Associates
Advocates & Solicitors
Vakils House, 18 Sprott Road,
Ballard Estate,
Mumbai - 400 001.

Fund Accountant:

J P Morgan Chase Bank,
Mafatlal Centre, 9th Floor,
Nariman Point,
Mumbai - 400 021.

Collecting Bankers:

	Bank	SEBI Registration No.	Address
1	HDFC Bank	INBI00000063	Manekji Wadia Bldg, Ground Floor, Nanik Motwani Marg, Fort, Mumbai - 1
2	Standard Chartered Bank	INBI00000885	90 M.G. Road, Fort, Mumbai - 400 001
3	HSBC Bank	IN / CUS / 009	52/ 60 MG Road, Fort, Mumbai 400 001
4	ICICI Bank	INBI00000004	Backbay Reclamation, Mumbai.
5	Kotak Bank	INBI00000927	13 th Floor, Nariman Bhavan, 227, Nariman Point, Mumbai: 400021
6	Centurian Bank of Punjab	Merged with HDFC Bank	
7	IDBI Bank	INBI00000076	224 , A Wing, Mittal Court, Nariman Point, Mumbai -21

8	Axis Bank	INBI00000017	Mumbai Main Branch, Universal Insurance Bldg, Sir P M Road, Mumbai - 1
9	BNP Paribas Bank	INBI00000893	62 Homji Street, Fort, Mumbai - 400 001.
10	Deutsche Bank	INBI00000003	Kodak House, 222, Dr D. N. Road, Fort, Mumbai 400 001.
11	Citi Bank	INBI00000037	Fort Branch, 4th Floor, Fort House, D N road, Fort, Mumbai
12	Yes Bank	INBI00000935	1A, Mittal Chambers, Nariman Point, Mumbai-400021
13	ABN Amro Bank	INBI00000034	Brady House, 14 V Nariman Road, Fort, Mumbai - 400 002
14	ING Vysa Bank Ltd	INBI00000022	12,Mittal Tower, Nariman Point, Mumbai 400 021

F. Condensed Financial Information (CFI) of the Schemes launched by the Mutual Fund during the last three financial years:

1 Morgan Stanley Growth Fund

Historical P.U. Statistics	2010-11	2009-2010	2008-2009
<i>NAV at the beginning of the year:</i>			
Growth Option	59.029	31.012	52.854
Dividend Option	19.235	10.104	N.A
Dividends [in Rs]	1.50	Nil	Nil
<i>NAV at the end of the year:</i>			
Growth Option	62.736	59.029	31.012
Dividend Option	19.152	19.235	10.104
Net Assets at the end of the Period [Rs. in crore]	1,646.46	1,956.15	1,378.51
Ratio of Recurring Expenses to net assets	1.89%	1.73%	1.59%

2. Morgan Stanley A.C.E Fund [Scheme launched in April 2008]

Historical P.U. Statistics	2010-11	2009-2010	2008-2009
<i>NAV at the beginning of the year:</i>			
Growth Option	13.701	6.159	N.A#
Dividend Option	13.701	6.159	N.A#
Dividends [in Rs.]	1.00	Nil	Nil
<i>NAV at the end of the year:</i>			
Growth Option	14.994	13.701	6.159
Dividend Option	14.117	13.701	6.159
Net Assets at the end of Period [Rs. in crore]	397.45	206.85	74.22
Ratio of Recurring Expenses to net assets	2.33%	2.44%	2.26%*

* Annualized

3 Morgan Stanley Short Term Bond Fund [Scheme launched in May 2009]

Historical P.U. Statistics	2010-11	2009-2010	2008-2009
<i>NAV at the beginning of the year:</i>			
Regular Growth	10.4189	N.A.##	N.A
Regular Dividend - Monthly	10.0234	N.A.##	N.A
Institutional Plus Growth	10.4510	N.A.##	N.A
Institutional Plus Monthly Dividend	N.A	N.A.##	N.A
Inst. Plus Weekly Div	10.0363	N.A.##	N.A
Regular Dividend - Quarterly	N.A**	N.A**	N.A
Regular Weekly Reinvestment \$	N.A***	N.A***	
Institutional Plus Quarterly Dividend	N.A**	N.A**	
Dividends [in Rs.]			

Regular Monthly Dividend	0.542418	0.388485	N.A
Regular Weekly Reinvestment Dividend	0.417300	N.A.***	N.A
Institutional Plus Weekly Dividend	0.578054	0.399582	N.A
Institutional Plus Monthly Dividend	0.394110	0.086713	N.A
<i>NAV at the end of the year:</i>			
Regular Growth	11.0645	10.4189	N.A
Regular Dividend - Monthly	10.0857	10.0234	
Institutional Plus Growth	11.1320	10.4510	N.A
Institutional Plus Monthly Dividend	10.0886	N.A	
Inst. Plus Weekly Div	10.0934	10.0363	
Regular Dividend - Quarterly	N.A**	N.A**	
Regular Weekly Reinvestment \$	10.0782	N.A***	
Institutional Plus Quarterly Dividend	N.A**	N.A**	
Net Assets at the end of Period [Rs. in crore]	68.36	99.62	N.A
Ratio of Recurring Expenses to net assets	0.70%	0.64%*	N.A

* Annualized

4 Morgan Stanley Active Bond Fund [Scheme launched in May 2009]

Historical P.U. Statistics	2010-11	2009-2010	2008-2009
<i>NAV at the beginning of the year:</i>			
Regular Growth	10.0487	N.A*	N.A
Institutional Plus Growth	N.A.**	N.A*	N.A
Regular Quarterly Dividend Option	10.0487	N.A*	N.A
Inst.Plus Quarterly Div	N.A.**	N.A*	N.A
Dividends [in Rs.]	Nil	Nil	N.A
<i>NAV at the end of the year:</i>			
Regular Growth Option	10.4027	10.0487	N.A
Institutional Plus Growth	N.A.**	N.A**	N.A
Regular Quarterly Dividend Option	10.4027	10.0487	N.A
Inst.Plus Quarterly Div	N.A**	N.A**	N.A
Net Assets at the end of Period [Rs. in crore]	0.53	1.46	N.A
Ratio of Recurring Expenses to net assets	1.75%	1.51%*	N.A

* Annualized

Note :-

N.A* :- Scheme Allotment date is 28th May 2009

N.A** :- No Outstanding units in the plan

N.A*** :- Plan Introduced on 7th June 2010

N.A.## :- Scheme allotment date is 26th May 2009

N.A# :- Scheme allotment date is 3rd April 2008

II. HOW TO APPLY?

Application Forms / Transaction Slips for the Purchase of Units of the Scheme will be available at the Official Points of Acceptance / distributors. Applications filled up and duly signed by all joint investors should be submitted along with the cheque payable locally, to a Designated Collection Centre.

Applications should be made in adherence to the minimum amount requirements as mentioned in paragraph "Minimum Amount for applying in the Scheme".

It is mandatory for every applicant to provide the name of the bank, branch, address, account type and number as per SEBI requirements and any Application Form without these details will be treated as incomplete. Such

incomplete applications will be rejected. The Registrar / AMC may ask the investor to provide a blank cancelled cheque or its photocopy for the purpose of verifying the bank account number.

For every application including application in joint names, each of the applicants, irrespective of amount should mention his / her permanent account number (PAN) allotted under the Income Tax Act, 1961 and also submit a photocopy of the PAN card(s) or a communication from the Income Tax authority indicating allotment of PAN ("PAN Communication") along with the application for the purpose of verification of the number. Further, the PAN card copy is required to be verified with the original either by the ISCs or verified / attested by ARN distributors, bank managers or judicial authorities.

- **Applications incomplete in any respect will be liable to rejection.**

In order to protect investors from frauds, it is advised that the Application Form number/folio number and name of the first investor should be written overleaf the cheque / draft, before they are handed over to any courier/messenger/distributor/ISC.

In order to protect investors from fraudulent encashment of cheques, the Regulations require that cheques for Redemption of Units specify the name of the Unit Holder and the bank name and account number where payments are to be credited. Hence, all applicants for Purchase of Units must provide a bank name, bank account number, branch address, and account type in the Application Form.

- **Subscription via third party cheques:**

When a payment is made through instrument/s issued from a bank account other than that of the beneficiary investor, the same is referred to as "third party payment". It may be noted that in case of payments from a joint bank account, the first holder of the folio has to be one of the joint holders of the bank account from which payment is made.

1. A Third party cheques shall not be accepted except in the following situations:

- i. Payment by Parents/grand parents/related persons on behalf of a minor in consideration of natural love and affection or as gift for a value not exceeding Rs. 50,000/- [each regular purchase or per Systematic Investment Plan ("SIP") installment];
- ii. Payment by Employer on behalf of employees through Payroll deductions for SIP or lump sum purchases, and
- iii. Custodian on behalf of an FII or a client.

1. B Documents to be obtained for the above cases:

In case of exceptional situations as above, the following verification may be carried out by Morgan Stanley Investment Management Pvt. Ltd. ["MSIM"] or by its Registrar & Transfer Agent:

- i. KYC would be mandatory for both the Investor and the person making the payment.
- ii. Such applications must be accompanied by a declaration by the person making the payment giving details of the bank account from which the payment is made and the relationship with the beneficiary.
- iii. Verification to show that the Funds are sourced from the drawer's bank account only.

2. In order to prevent fraud and misuse of payment instrument, investors are urged to make the payment instrument favoring "XYZ Scheme a/c First Investor name" or "XYZ Scheme a/c Permanent Account Number", or "XYZ Scheme a/c Folio Number".

3. Registration of multiple bank accounts:

- i. Under this facility, Individual investors/HUF may register up to five bank accounts and Non-individual investors may register up to ten bank accounts with the AMC to receive the redemption/dividend proceeds choosing one of these accounts as preferred bank account. Investor can register bank accounts as mentioned above by filling up a form available at the official points of contact and on the Fund website i.e. www.morganstanley.com/indiamf.
- ii. The Investor may choose to receive the redemption/dividend proceeds in any of the bank accounts registered as above. In case where the investor does not specify the same, the default option would be to credit the redemption/dividend proceeds to the bank account mentioned on the application form.

iii. In case of joint bank accounts, the first holder of the Mutual Fund folio must be one of the joint holders of the bank account from which the investment is made. Investment made through bank accounts other than those registered with the Mutual Fund would be considered as third party payments, and are liable to be rejected.

4. With respect to Source of funds, investors are requested to comply with the following provisions:

4. A Source of funds - if paid by cheque

An investor at the time of his/her purchase of units must provide in the application form the details of his/her pay-in bank account [i.e. account from which a subscription payment is made] and his/her pay-out bank account [i.e. account into which redemption/dividend proceeds are to be paid]. Identification of third party cheques by the AMC/Mutual Fund/Registrar & Transfer Agent will be on the basis of either matching of pay-in bank account details with pay-out bank account details or by matching the bank account number/name/signature of the first named applicant/investor with the name/account number/signature available on the cheque. If the name is not pre-printed on the cheque or signature on the cheque does not match with the application, then the first named applicant/investor should submit any one of the following documents:

- (a) a copy of the bank passbook or a statement of bank account having the name and address of the account holder and account number;
- (b) a letter from the bank on its letterhead certifying that the investor maintains an account with the bank, along with information like bank account number, bank branch, account type, the MICR code of the branch & IFSC Code [where available].

4. B Source of funds – if paid by pre-funded Instruments [e.g. Pay Order, Demand Draft and Banker’s cheque]:

- i. The instrument must be funded from Investor’s registered bank account and the application must be accompanied by a certificate from the issuing banker, stating the Account holder’s name and the Account number which has been debited for issue of the instrument.
- ii. A pre-funded instrument issued by the Bank against Cash shall not be accepted for investments of Rs. 50,000/- or more.
- iii. Instruments below Rs. 50,000/- issued against cash must be accompanied by a certificate from the issuing banker giving name, address and PAN (if available) of the person who has requested for the demand draft, and the same should match with the Investors’ details on the application form.

4. C Source of funds – for Bank Transfer:

- i. If subscription is made through RTGS, NEFT, ECS, bank transfer, etc., the same shall be made only through Investor’s registered bank account or else the same is liable to be rejected. Further, a copy of the instruction to the bank stating the bank account number debited must accompany the purchase application.

4. D Source of funds - for transactions through Channel Partners:

- i. For transactions via online mode [“herein after referred as “Channel Partners”], the Channel Partners shall ensure that the transactions are made through Investor’s bank account[s] registered with them.

5. Investors transacting through Stock Exchange Platforms under the electronic order collection system shall comply with the norms/rules prescribed by the Stock Exchanges.

In case the application for subscription received on or after November 15, 2010, does not comply with the above provisions, the AMC reserves the right to reject such application.

- **For investors having demat account, the following provisions shall be applicable for purchasing and redeeming mutual fund units through stock brokers and clearing members:**

- 1. Investors shall receive redemption amount [if units are redeemed] and units [if units are purchased] through broker/clearing member’s pool account. MSMF shall pay proceeds to the broker/clearing

member [in case of redemption] and broker/clearing member in turn is required to credit the respective investor's bank account and similarly units shall be credited by MSMF into broker/clearing member's pool account [in case of purchase] and broker/clearing member in turn is required to credit the units to the respective investor's DP account.

2. Payment of redemption proceeds by MSMF to the broker/clearing members shall discharge MSMF of its obligation of payment to individual investor. Similarly, in case of purchase of units, crediting units into broker/clearing member pool account shall discharge MSMF of its obligation to allot units to individual investor.

Please also note that Clearing members and Depository participants will be considered as official points of acceptance as per SEBI Circular No. SEBI/IMD/CIR No.11/78450/06 dated October 11, 2006 and conditions stipulated in SEBI Circular dated November 13, 2009 for stock brokers viz. AMFI/NISM certification, code of conduct prescribed by SEBI for Intermediaries of Mutual Fund, shall be applicable for such Clearing members and Depository participants as well.

III. RIGHTS OF UNITHOLDERS OF THE SCHEME

1. Unit holders of the Scheme have a proportionate right in the beneficial ownership of the assets of the Scheme.
2. When the Mutual Fund declares a dividend under the Scheme, the dividend warrants shall be dispatched within 30 days of the declaration of the dividend.
3. A consolidated account statement containing details relating to all the transactions carried out by the investor across schemes of all Mutual Funds during the month and holding at the end of the month for those folios would be sent to the unit holders on or before 10th calendar day of the succeeding month. The unit holders are requested to refer to the Scheme Information Documents [addendum thereto] for more details in this regard.
4. If a Unit holder so desires, the Mutual Fund shall issue a Unit certificate (non- transferable) within 30 days of the receipt of request for the certificate.
5. The Mutual Fund shall dispatch Redemption proceeds within 10 Business Days of receiving the Redemption request.
6. The Trustee is bound to make such disclosures to the Unit holders as are essential in order to keep the unit holders informed about any information known to the Trustee which may have a material adverse bearing on their investments.
7. The appointment of the AMC for the Mutual Fund can be terminated by majority of the Directors of the Trustee Board or by 75% of the Unit holders of the Scheme.
8. 75% of the Unit holders of a Scheme can pass a resolution to wind- up a Scheme.
9. The Trustee shall obtain the consent of the Unit holders:
 - whenever required to do so by SEBI, in the interest of the Unit holders.
 - whenever required to do so if a requisition is made by three- fourths of the Unit holders of the Scheme.
 - when the Trustee decides to wind up the Scheme or prematurely redeem the Units.
 - The Trustee shall ensure that no change in the fundamental attributes of any Scheme or the trust or fees and expenses payable or any other change which would modify the Scheme and affects the interest of Unit holders, shall be carried out unless :
 - (i) a written communication about the proposed change is sent to each Unit holder and an advertisement is given in one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of the region where the Head Office of the Mutual Fund is situated; and
 - (ii) the Unit holders are given an option to exit at the prevailing Net Asset Value without any Exit Load.
10. In specific circumstances, where the approval of unit holders is sought on any matter, the same shall be obtained by way of a postal ballot or such other means as may be approved by SEBI.

INVESTMENT VALUATION NORMS FOR SECURITIES AND OTHER ASSETS

The NAV of the units of the scheme will be computed by dividing the net assets of the Scheme by the number of units outstanding on the valuation date.

The Fund shall value its investments according to the valuation norms, as specified in Schedule VIII of the SEBI Regulations or such other norms as may be prescribed by SEBI from time to time.

The broad valuation norms pertaining to the scheme are detailed below.

Traded Securities:

- The securities shall be valued at the closing price on the principal stock exchange (NSE).
- When the securities are traded on more than one recognized stock exchange, the securities shall be valued at the closing price on the stock exchange where the security is principally traded. It would be left to the AMC to select the appropriate stock exchange. There should however be no objection for all scrips being valued at the prices quoted on the stock exchange where a majority of the investments are principally traded
- Once a stock exchange has been selected for valuation of a particular security, reasons for change of the exchange shall be recorded in writing by the AMC.
- When on a particular valuation day, a security has not been traded on the selected stock exchange; the value at which it is traded on another stock exchange may be used.
- When a security (other than Debt securities) is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the selected stock exchange or any other stock exchange, as the case may be, on the earliest previous day may be used provided such date is not more than 30 days prior to the valuation date.
- When a debt security (other than Government securities) is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the principal stock exchange or any other stock exchange, as the case may be, on the earlier previous day may be used provided such date is not more than 15 days prior to the valuation date.

Thinly Traded Securities:

Thinly Traded Equity/Equity Related Securities:

When trading in an equity/equity related security (such as convertible debentures, equity warrants, etc.) in a month is both less than Rs. 5 lakh (Rupees Five Lakhs only) and the total volume is less than 50,000 (Fifty Thousand only) shares, it shall be considered as a thinly traded security and valued accordingly.

For example, if the volume of trade is 100,000 and value is Rs. 400,000 the share does not qualify as thinly traded. Also if the volume traded is 40,000, but the value of trades is Rs. 600,000, the share does not qualify as thinly traded. In order to determine whether a security is thinly traded or not, the volumes traded in all recognized stock exchanges in India may be taken into account.

Where a stock exchange identifies the “thinly traded” securities by applying the above parameters for the preceding calendar month and publishes/provides the required information along with the daily quotations, the same can be used by the Fund.

If the share is not listed on the stock exchanges which provide such information, the Fund on the basis of its own analysis in line with the above criteria will check whether such securities are thinly traded and value accordingly.

In case trading in an equity security is suspended upto 30 days, then the last traded price would be considered for valuation of that security. If an equity security is suspended for more than 30 days, then

the AMC/Trustees will decide the valuation norms to be followed in good faith and such norms would be documented and recorded.

Thinly Traded Debt Securities

A debt security (other than Government Securities) shall be considered as a thinly traded security if on the valuation date, there are no individual trades in that security in marketable lots (currently Rs 5 crore) on the principal stock exchange or any other stock exchange.

A thinly traded debt security as defined above would be valued as per the norms set for non-traded debt security.

Non Traded Equity Securities:

When a security is not traded on any stock exchange for a period of thirty days prior to the valuation date, the scrip must be treated as a 'non traded' security.

Valuation of Non-Traded/Thinly Traded Securities:

Non-traded/thinly traded securities shall be valued "in good faith" by the AMC on the basis of approved principles laid down by AMC and appropriate valuation method. For the purpose of valuation of Non traded/ Thinly traded securities, the following principles will be adopted;

Non Traded/Thinly Traded Equity/Equity Related Securities:

- Based on the latest available Balance Sheet, net worth shall be calculated as follows:
Net Worth per share = [share capital + reserves (excluding revaluation reserves) - miscellaneous expenditure and debit balance in P&L A/c] divided by number of paid up shares.
- Average capitalization rate (P/E ratio) for the industry based upon either BSE or NSE data (which should be followed consistently and changes, if any noted with proper justification thereof) shall be taken and discounted by 75% i.e. only 25% of the industry average P/E shall be taken as capitalization rate (P/E ratio). Earnings per share of the latest audited annual accounts will be considered for this purpose.
- The value as per the net worth value per share and the capital earning value calculated as above shall be averaged and further discounted by 10% for ill-liquidity so as to arrive at the fair value per share.
- In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalized earning.
- In case where the latest balance sheet of the company is not available within 9 months from the close of the year, unless the accounting year is changed, the shares of such companies shall be valued at zero.
- In case an individual security accounts for more than 5% of the total assets of the Scheme, an independent valuer shall be appointed for the valuation of the said security.

To determine if a security accounts for more than 5% of the total assets of the Scheme, it should be valued by the procedure above and the proportion which it bears to the total net assets of the Scheme to which it belongs would be compared on the date of valuation.

Valuation of Unlisted Equity Securities:

Unlisted equity shares of a company shall be valued "in good faith" on the basis of the valuation principles laid down below:

a) Based on the latest available audited balance sheet, net worth shall be calculated as lower of (i) and (ii) below:

i. Net worth per share = [share capital plus free reserves (excluding revaluation reserves) minus Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] divided by Number of Paid up Shares.

ii. After taking into account the outstanding warrants and options, Net worth per share shall again be calculated and shall be = [share capital plus consideration on exercise of Option/Warrants received/receivable by the Company plus free reserves(excluding revaluation reserves) minus Miscellaneous expenditure not written off or deferred revenue expenditure, intangible assets and accumulated losses] divided by {Number of Paid up Shares plus Number of Shares that would be obtained on conversion/exercise of Outstanding Warrants and Options}

The lower of (i) and (ii) above shall be used for calculation of net worth per share and for further calculation in (c) below.

b) Average capitalization rate (P/E ratio) for the industry based upon either BSE or NSE data (which should be followed consistently and changes, if any, noted with proper justification thereof) shall be taken and discounted by 75% i.e. only 25% of the Industry average P/E shall be taken as capitalization rate (P/E ratio). Earnings per share of the latest audited annual accounts will be considered for this purpose.

c) The value as per the net worth value per share and the capital earning value calculated as above shall be averaged and further discounted by 15% for illiquidity so as to arrive at the fair value per share.

The above methodology for valuation shall be subject to the following conditions:

- i. All calculations as aforesaid shall be based on audited accounts.
- ii. In case where the latest balance sheet of the company is not available within nine months from the close of the year, unless the accounting year is changed, the shares of such companies shall be valued at zero.
- iii. If the net worth of the company is negative, the share would be marked down to zero.
- iv. In case the EPS is negative, EPS value for that year shall be taken as zero for arriving at capitalized earning.
- v. In case an individual security accounts for more than 5% of the total assets of the scheme, an independent valuer shall be appointed for the valuation of the said security. To determine if a security accounts for more than 5% of the total assets of the scheme, it should be valued in accordance with the procedure as mentioned above on the date of valuation.

At the discretion of the AMC and with the approval of the trustees, an unlisted equity share may be valued at a price lower than the value derived using the aforesaid methodology.

Illiquid Securities:

Aggregate value of “illiquid securities” of the scheme, which are defined as non-traded, thinly traded and unlisted equity shares, shall not exceed 15% of the total assets of the scheme and any illiquid securities held above 15% of the total assets shall be assigned zero value.

The Fund shall disclose as on March 31 and September 30 the scheme wise total illiquid securities in value and percentage of the net assets while making disclosures of half yearly portfolios to the unit holders.

The Fund shall not transfer illiquid securities among its schemes.

In respect of closed ended funds, for the purposes of valuation of illiquid securities, the limits of 15% and 20% applicable to open ended funds will be increased to 20% and 25% respectively.

Valuation of IPO allotment Pending Listing:

Such allotment will be carried at cost till the date of listing.

Valuation of Rights:

Until they are traded, the value of "rights" shares shall be calculated as:

$$V_r = n \div m \times (P_{ex} - P_{of})$$

Where V_r = Value of rights

n = no. of rights offered

m = no. of original shares held

P_{ex} = Ex-rights price

P_{of} = Rights Offer Price

Where the rights are not treated pari passu with the existing shares, suitable adjustments shall be made to the value of the rights. Where it is decided not to subscribe for the rights but to renounce them and renunciations are being traded, the rights can be valued at the renunciation value.

Valuation of Preference Shares:

Actively traded: to be valued at traded price

Non-traded\Unlisted: to be valued at cost

Fixed Income and Money Market Securities:

Debt instruments shall generally be valued on a yield to maturity basis on the basis of the capitalization factor for comparable traded securities and with an appropriate discount for a lower liquidity. While investments in bills purchased under rediscounting scheme and short term deposits with banks shall be valued at cost plus accrual; other money market instruments shall be valued at the yield at which they are currently traded.

Valuation of Debt and Money Market Instruments:

Pursuant to the SEBI Circular no. SEBI/IMD/CIR No.16/ 193388/ 2010 dated February 02, 2010 and SEBI Circular no. Cir / IMD / DF / 4 / 2010 dated 21 June 2010 on "Valuation of Debt and Money Market Instruments", the current provisions regarding valuation of these securities will be as under:

Valuation of money market and debt securities with residual maturity of upto 91 days:

All money market and debt securities, including floating rate securities, with residual maturity of upto 91 days shall be valued at the weighted average price at which they are traded on the particular valuation day.

When such securities are not traded on a particular valuation day they shall be valued on amortization basis. It is further clarified that in case of floating rate securities with floor and caps on coupon rate and residual maturity of upto 91 days then those shall be valued on amortization basis taking the coupon rate as floor.

Valuation of money market and debt securities with residual maturity of over 91 days:

All money market and debt securities, including floating rate securities, with residual maturity of over 91 days shall be valued at weighted average price at which they are traded on the particular valuation day. When such securities are not traded on a particular valuation day they shall be valued at benchmark yield/ matrix of spread over risk free benchmark yield obtained from agency(ies) entrusted for the said purpose by AMFI. Currently, as per recommendation of AMFI the yield matrix provided by CRISIL and ICRA is to be used.

For the purpose of valuation, all non-traded Debt Securities would be classified as "Investment grade" and "Non Investment grade" securities based on their credit ratings. Non investment grade securities would further be classified as "Performing" and "Non Performing" assets.

- All Non Government investment grade debt securities, classified as not traded, shall be valued on yield to maturity basis as described below.
- All Non Government non investment grade performing debt securities would be valued at a discount of 25% to the face value.
- All Non Government non investment grade non performing debt securities would be valued based on the provisioning norms.

The approach in valuation of non traded debt securities is based on the concept of using spreads over the benchmark rate to arrive at the yields for pricing the non traded security.

The Yields for pricing the non traded debt security would be arrived at using the process as defined below.

Step A

A Risk Free Benchmark Yield is built using the government securities (GOI Sec) as the base. GOI Securities are used as the benchmarks as they are traded regularly; free of credit risk; and traded across different maturity spectrums every week.

Step B

A Matrix of spreads (based on the credit risk) is built for marking up the benchmark yields. The matrix is built based on traded corporate paper on the wholesale debt segment of an appropriate stock exchange and the primary market issuances. The matrix is restricted only to investment grade corporate paper.

Step C

The yields as calculated above are Marked-up/Marked-down for ill-liquidity risk

Step D

The Yields so arrived are used to price the portfolio

METHODOLOGY

A. Construction of Risk Free Benchmark Using Government of India dated securities, the Benchmark shall be constructed as below:

Government of India Dated securities will be grouped into the following duration buckets viz., 0.25-0.5 years, 0.5-1 years, 1-2 years, 2-3 years, 3-4 years, 4-5 years, 5-6 years and over 6 years and the volume weighted yield would be computed for each bucket. Accordingly, there will be a benchmark YTM for each duration bucket.

The benchmark as calculated above will be set weekly, and in the event of any change in the Reserve Bank of India (RBI) policies affecting interest rates during the week, the benchmark will be reset to reflect any change in the market conditions.

Note: The concept of duration over tenor has been chosen in order to capture the reinvestment risk. It is intended to gradually move towards a methodology that incorporates the continuous curve approach for valuation of such securities. However, in view of the current lack of liquidity in the corporate bond markets, a continuous curve approach to valuation would be necessarily based on limited data points, and this would result in out of line valuations.

As an interim methodology therefore it is proposed that the Duration Bucket approach be adopted and continuously tracked in order to fine tune the duration buckets on a periodic basis. Over the next few

years it is expected that with the deepening of the secondary market trading, it would be possible to make a gradual move from the Duration Bucket approach towards a continuous curve approach.

B. Building a Matrix of Spreads for Marking-up the Benchmark Yield

Mark up for credit risk over the risk free benchmark YTM as calculated in step A, will be determined using the trades of corporate debentures/bonds of different ratings. All trades on appropriate stock exchange during the fortnight prior to the benchmark date will be used in building the corporate YTM and spread matrices. Initially these matrices will be built only for corporate securities of investment grade. The matrices are dynamic and the spreads will be computed every week. The matrix will be built for all duration buckets for which the benchmark GOI matrix is built to effectively link the corporate matrix with the GOI securities matrix.

Accordingly:

- All traded paper (with minimum traded value of Rs. 1 crore) will be classified by their ratings and grouped into 7 duration buckets; for rated securities, the most conservative publicly available rating will be used;
- For each rating category, average volume weighted yield will be obtained both from trades on the appropriate stock exchange and from the primary market issuances.
- Where there are no secondary trades on the appropriate stock exchange in a particular rating category and no primary market issuances during the fortnight under consideration, then trades on appropriate stock exchange during the 30 day period prior to the benchmark date will be considered for computing the average YTM for such rating category;
- If the matrix cannot be populated using any or all of the above steps, then credit spreads from trades on appropriate stock exchange of the relevant rating category over the AAA trades will be used to populate the matrix;
- In each rating category, all outliers will be removed for smoothening the YTM matrix;
- Spreads will be obtained by deducting the YTM in each duration category from the respective YTM of the GOI securities;
- In the event of lack of trades in the secondary market and the primary market the gaps in the matrix would be filled by extrapolation. If the spreads cannot be extrapolated for the reason of practicality, the gaps in the matrix will be filled by carrying the spreads from the last matrix.

For Valuation of Debt securities, the rating agencies would provide separate matrix after adjusting for the higher risk for valuation of securities issued by NBFC companies

Crisil was the only authorized rating agency to provide the Yield matrices for valuation of debt securities. To refined Debt Valuation Process AMFI Valuation Committee has engaged ICRA as the second Valuer. With effect from 15 December 2009 average of the two Yield Matrices provided by CRISIL & ICRA will be used for valuation of debt securities. Should the spread between the 2 Models (on pricing) be more than 5 percent (tolerance limit), then the Fund Houses shall advise both Valuation Metric providers to revisit the pricing for that specific security.

Mark-up/Mark-down Yield:

The Yields calculated would be marked-up/marked-down to account for the illiquidity risk, promoter background, finance company risk and the issuer class risk. As the level of illiquidity risk would be higher for non rated securities the marking process for rated and non rated securities would be differentiated as follows:

Adjustments for Securities rated by External Rating Agencies:

The Yields so derived out of the above methodology could be adjusted to account for risk mentioned above by an appropriate discount or premium as may be required. The range of the markups for both discount as well as premium is given below:

Premium:

A Discretionary premium of up to -50 Basis Points for securities having duration of up to 2 years and up to -25 Basis Points for securities having duration higher than 2 years will be permitted to be provided for the above mentioned types of risks. The rationale for the above discount structure is to take cognizance of the differential interest rate risk of the securities. This structure will be reviewed periodically.

Discount:

SEBI has revised the discretionary discount limits as below:

Category Discretionary discount over benchmark yield in basis points Rated Instruments with Discretionary Discount of up to +100 duration up to 2 years Rated Instruments with Discretionary Discount of up to +75 duration over 2 years.

Adjustments for Internally Rated Securities:

To value an unrated security, the fund manager has to assign an internal credit rating, which will be used for valuation. Since unrated instruments tend to be more illiquid than rated securities, the yields would be mandatorily marked up by adding +50 basis point for securities having duration of up to two years and +25 basis point for securities having duration of higher than two years to account for the illiquidity risk.

The yields derived from the above methodology could be adjusted to account for risk mentioned above. SEBI has revised the discretionary discount limits as below:

Category Discretionary discount over benchmark yield in basis points Unrated Instruments Discretionary Discount of up to +50 over with duration up to 2 years and above the mandatory Discount of +50 Unrated Instruments Discretionary Discount of up to +50 over with duration over 2 years and above the mandatory Discount of +25.

Chief Executive Officer (whatever his designation may be) of the Asset Management Company shall give prior approval to the use of discretionary mark up or down limit.

The benchmark yield / matrix of spreads over benchmark yield obtained from any agency suggested by AMFI as a provider of benchmark yield / matrix of spreads over benchmark yield to mutual funds, must be applied for valuation of securities on the day on which the benchmark yield / matrix of spreads over benchmark yield is released by the aforesaid agency.

Valuation of securities with Put/Call Options:

The option embedded securities would be valued as follows:

Securities with call option:

The securities with call option shall be valued at the lower of the value as obtained by valuing the security to final maturity and valuing the security to call option.

In case there are multiple call options, the lowest value obtained by valuing to the various call dates and valuing to the maturity date is to be taken as the value of the instrument.

Securities with Put option:

The securities with put option shall be valued at the higher of the value as obtained by valuing the security to final maturity and valuing the security to put option.

In case there are multiple put options, the highest value obtained by valuing to the various put dates and valuing to the maturity date is to be taken as the value of the instruments.

Securities with both Put and Call option on the same day.

The securities with both Put and Call option on the same day would be deemed to mature on the Put/Call day and would be valued accordingly.

Government Securities/ Treasury Bills:

All Government Securities are to be valued at the prices released by agency/ies (as notified by AMFI) on a daily basis. The agencies so notified by AMFI are CRISIL and ICRA. In the event of non availability of the CRISIL and ICRA prices for any reason whatsoever prices released by FIMMDA will be used.

Valuation of Convertible Debentures and Bonds:

In respect of convertible debentures and bonds, the non-convertible and convertible components will be valued separately. The non-convertible component is valued on the same basis as would be applicable to a debt instrument. The convertible component is valued on the same basis as would be applicable to an equity instrument. If, after conversion the resultant equity instrument would be traded pari-passu with an existing instrument, which is traded, the value of the latter instrument is adopted after appropriately discounting for the non-tradability of the instrument during the period preceding the conversion. While valuing such instruments, the fact whether the conversion is optional will be factored in.

Valuation of Warrants

In respect of warrants to subscribe for shares attached to instruments, the warrants are valued at the value of the share which would be obtained on exercise of the warrant as reduced by the amount which would be payable on exercise of the warrant. A discount similar to the discount to be determined in respect of convertible debentures (as referred to above) is deducted to account for the period that must elapse before the warrant can be exercised.

Valuation of “Repo”

Where instruments have been bought on ‘repo’ basis, the instrument will be valued at the resale price after deduction of applicable interest up to date of resale. Where an instrument has been sold on a ‘repo’ basis, adjustment must be made for the difference between the repurchase price (after deduction of applicable interest up to date of repurchase) and the value of the instrument. If the repurchase price exceeds the value, the depreciation must be provided for and if the repurchase price is lower than the value, credit must be taken for the appreciation.

Valuation of securities not covered under the current valuation policy:

In case of securities purchased by mutual funds do not fall within the current framework of the valuation of securities then such mutual fund shall report immediately to AMFI regarding the same. Further, at the time of investment AMCs shall ensure that the total exposure in such securities does not exceed 5% of the total AUM of the scheme.

AMFI has been advised that the valuation agencies should ensure that the valuation of such securities gets covered in the valuation framework within six weeks from the date of receipt of such intimation from mutual fund.

In the interim period, till AMFI makes provisions to cover such securities in the valuation of securities framework, the mutual funds shall value such securities using their proprietary model which has been approved by their independent trustees.

Valuation Policies with respect to Derivative Products:**Equity Option Derivatives:**

Premium paid / received on bought / written option contracts shall be debited / credited to "equity option premium account" and recorded as an asset / liability.

When the option contracts are squared off before expiry, the difference between the premium paid and received on the squared off transactions shall be recognized in the revenue account. When the option contracts are exercised on or before expiry, the difference between the option settlement price as determined by the exchange and the premium shall be recognized in the revenue account. If more than one option contracts in respect of the same stock / index with the same strike price and expiry date to which the squared off / exercised contract pertains is outstanding at the time of square off / exercise of the contract, the weighted average method shall be followed for determining the gain or loss.

Premium asset / liability in respect of options not exercised / squared off as on expiry date shall be transferred to revenue account.

As at the balance sheet date / date of determination, all open option positions shall be valued at the last quoted price at the exchange where it is traded. Non-traded equity option contracts shall be valued at fair value as per procedures determined by the AMC and approved by the Trustee. The unrealized appreciation / depreciation on all open positions shall be considered for determining the NAV.

Equity Futures Derivatives:

Futures contracts are marked to market daily at the futures settlement price as determined by the exchange and correspondingly, variation margin calculated as the difference between the trade price or the previous day's settlement price, as the case may be, and the current day's settlement price shall be recorded as a receivable or payable.

When a contract is squared off/settled on expiry, the difference between the square-off price/the final settlement price and the contract price shall be recognized in the revenue account. If more than one futures contracts in respect of the same stock and expiry date, to which the squared off/settled contract pertains, is outstanding at the time of square off/settlement of the contract, the weighted average method shall be followed for determining the gain or loss.

As at the balance sheet date/date of determination, all open futures positions shall be valued at the last quoted price at the exchange where it is traded. Non-traded equity futures contracts shall be valued at fair value as per procedures determined by the AMC and approved by the Board of Trustees. The unrealized appreciation/depreciation on all open positions shall be considered for determining the NAV.

The traded derivatives shall be valued at market price in conformity with the stipulations of sub clauses (i) to (v) of clause 1 of the Eighth Schedule to the SEBI Regulations, as amended from time to time.

The valuation of untraded derivatives shall be done in accordance with the valuation method for untraded investments prescribed in sub clauses (i) to (ii) of clause 2 of the Eighth Schedule to the SEBI Regulations, as amended from time to time.

Interest Rate Swaps (IRS):

In case the IRS is traded, it shall be valued at traded price. In case it is non traded, valuation shall be as under:

- i. IRS having maturity less than 91 days At cost
- ii. IRS having maturity greater than 91 days Fair valued as per guidelines by fair valuation committee
- iii. IRS having maturity greater than 91 days, subsequently reduces to less than 91 days, At Amortized Price

Valuation Norms for Foreign Securities:

There are no specific SEBI guidelines on valuation of foreign securities at present. In the absence of any guidelines, the following policy would be followed:

Foreign Securities – Equity:

On the Valuation Day, the securities issued outside India and listed on the stock exchanges outside India shall be valued at the closing price on the stock exchange at which it is listed or at the last available traded price. However in case a security is listed on more than one stock exchange, the AMC reserves the right to determine the stock exchange, the price of which would be used for the purpose of valuation of that security. In such cases, the AMC shall record the justification for selecting a particular stock exchange whose price is used for valuation. Further in case of extreme volatility in the international markets, the securities listed in those markets may be valued on a fair value basis.

Due to difference in time zones of different markets, in case the closing prices of securities are not available within a given time frame to enable the AMC to upload the NAVs for a Valuation Day, the AMC may use the last available traded price for the purpose of valuation. The use of the closing price / last available traded price for the purpose of valuation will also be based on the practice followed in a particular market.

In case any particular security is not traded on the Valuation Day, the same shall be valued on a fair value basis by the valuation committee of the AMC.

Foreign Securities – Debt:

In case of investments in foreign debt securities, on the Valuation Day, the securities shall be valued in line with the valuation norms specified by SEBI for Indian debt securities. However, in case valuation of a specific debt security is not covered by SEBI Regulations, then the security will be valued on a fair value basis by the valuation committee of the AMC.

Conversion of assets and liabilities held in foreign currency:

On the Valuation Day, all assets and liabilities denominated in foreign currency will be valued in Indian Rupees at the exchange rate available RBI web site (reference rate)/TT Buy Rate published in leading news paper/Closing rate from FIMMDA for the previous day. The Trustees reserve the right to change the source for determining the exchange rate. The exchange gain / loss resulting from the aforesaid conversion shall be recognized as unrealized exchange gain / loss in the books of the Scheme on the day of valuation.

Further, the exchange gain / loss resulting from the settlement of assets / liabilities denominated in foreign currency shall be recognized as realized exchange gain / loss in the books of the Scheme on the settlement of such assets / liabilities.

Valuation of Non-Performing Assets:

All Non-Performing Assets shall be valued in accordance with the Guidelines for Identification and Provisioning for Non-Performing Assets (Debt securities) for Mutual Funds issued by SEBI vide Circular dated September 18, 2000.

An asset shall be classified as "Non-Performing" if the interest and / or principal amount have not been received or remained outstanding for three months from the day such income / installment has fallen due.

The Fund shall make scrip wise disclosures of NPAs on a half yearly basis along with the half yearly portfolio disclosure.

The total amount of provisions made against the NPAs shall be disclosed in addition to the total quantum of NPAs and their proportion of the assets of a Scheme. In the list of investments, an asterisk mark shall be given against such investments which are recognized as NPAs. Where the date of redemption of an investment has lapsed, the amount not redeemed shall be shown as 'Sundry Debtors' and not investment, provided that where an investment is redeemable by installments that will be shown as an investment until all installments have become overdue.

Investment in MF schemes (inter/intra investments):

At current End of Day NAV

IV. TAX & LEGAL & GENERAL INFORMATION**D) Taxation on investing in Mutual Funds**

THE FOLLOWING INFORMATION IS PROVIDED FOR GENERAL INFORMATION PURPOSES ONLY AND APPLIES TO THE SCHEME. IN VIEW OF THE INDIVIDUAL NATURE OF TAX BENEFITS, EACH INVESTOR IS ADVISED TO CONSULT HIS OR HER OWN TAX CONSULTANT WITH RESPECT TO THE SPECIFIC TAX IMPLICATIONS ARISING OUT OF HIS OR HER PARTICIPATION IN THE SCHEME.

A) TAX IMPLICATIONS TO UNIT HOLDERS

The details of the relevant tax provisions stated herein are as per the Income-tax Act, 1961 as amended by the Finance Act, 2010. The following is provided for general information purposes only. In view of the peculiarities that may arise as a result of each individual's circumstances, each client is advised to consult his/her own tax consultant with respect to the implication arising out of his or her investments. A high level discussion on the taxability of income arising from investment in securities is discussed in the following paragraphs.

1) Income-tax Act, 1961 ('the Act')**a. Income from units**

As per section 10(35) of the Act, any income (other than income arising from transfer of the units) received in respect of the units of a Mutual Fund specified under section 10(23D) of the Act, is exempt in the hands of the Unit Holders.

b. Income arising from transfer of units**i) Long term capital gains**

Under section 2(29A) read with section 2(42A) of the Act, units of the Scheme held as a capital asset are treated as a long-term capital asset if they are held for a period of more than twelve months immediately preceding the date of their transfer.

From the full value of consideration, the following amounts should be deducted to arrive at the amount of long-term capital gains:

- i. Cost of acquisition as adjusted by the cost inflation index notified by the Central Government in the Official Gazette; and
- ii. Expenditure incurred wholly and exclusively in connection with such transfer.

The additional units issued under the 'Reinvest Dividend' Option available in the Scheme and held as capital asset would get the benefit of long-term capital gains tax if sold after being held for more than 12 months. For this purpose, 12 months will be computed from the date when such additional units are allotted.

Please refer to the tax rates in **Annexure A**.

In case of non-resident Unit Holders eligible for availing tax treaty benefits, please refer to paragraph (e) below.

ii) Short-term capital gains

Under section 2(42A) of the Act, units of a mutual fund held as capital assets for a period of 12 months or less immediately preceding the date of their transfer are regarded as short-term capital assets.

Please refer to the tax rates in **Annexure A**.

In case of non-resident Unit Holders eligible for availing tax treaty benefits, please refer to paragraph (e) below.

iii) Business Income

Under section 28 of the Act, profit arising on transfer of units of a mutual fund which are held as stock in trade or trading asset, is taxed under the head ‘Profits and Gains of Business or Profession’. Such profit is added to the total income of the assessee and taxed at the rates mentioned below:

Assessee Status	Tax Rate ¹ (excluding surcharge and education cess, if applicable)
<u>Residents</u>	
Individuals, HUFs, association of persons, body of individuals and artificial juridical person	At the slab rates applicable
Firms, companies and local authority	30%
Non-residents (other than foreign Company)	At the slab rates applicable
Foreign Company	40%

In case of non-resident Unit Holders eligible for availing tax treaty benefits, please refer to paragraph (e) below.

iv) Avoidance of Tax by certain Transactions in Securities

As per section 94(7) of the Act, losses arising from the sale/transfer of units (including redemption) purchased up to 3 months prior to the record date and sold within 9 months after such date, will be disallowed to the extent of income distribution (excluding redemptions) on such units claimed as tax exempt by the unit holder.

Further, section 94(8) of the Act provides that any person who buys or acquires any units within a period of 3 months prior to the record date and such person is allotted additional units without consideration (bonus units) based on the original holding, any subsequent loss on sale of original units within a period of 9 months from the record date, will be ignored for computing the income chargeable to tax if the Unit Holder continues to hold all or any of the bonus units at the time of sale of original units. The loss so ignored will be deemed to be the cost of purchase or acquisition of bonus units (held at such time) when these bonus units are subsequently sold.

v) Securities Transaction Tax (‘STT’)

STT is levied on purchase or sale of a unit of an equity-oriented fund entered in a recognized stock exchange. The responsibility for the collection of the STT and payment to the credit of the Government is with the Stock Exchange. STT is also levied on sale of a unit of an equity-oriented fund to the Mutual Fund. In such a case, the responsibility for the collection of the STT and payment to the credit of the Government is with the Mutual Fund. The rates of STT are as follows:

	Nature of transaction	Rate of STT
A.	<u>Settled by actual delivery or transfer</u> Purchase of units of an equity oriented fund entered in a recognized stock exchange	Purchaser to pay 0.125 percent
	Sale of units of an equity oriented fund entered in a recognized stock exchange	Seller to pay 0.125 percent
B.	<u>Settled otherwise than by actual delivery or transfer</u> Sale of units of an equity oriented fund entered in a recognized stock exchange	Seller to pay 0.025 percent
C.	Sale of units of an equity oriented fund to the mutual fund	Seller to pay 0.25 percent

¹ For surcharge and education cess, please refer paragraph d

(Note: Equity-oriented fund means a fund, (i) which has been set up under a scheme of a Mutual Fund specified under clause (23D) of section 10 of the Act and (ii) where the investible funds are invested by way of equity shares in domestic companies to the extent of more than sixty five percent of the total proceeds of such fund)

vi) Set off and Carry-forward

Short-term capital loss on transfer of units is available for set off against both short-term and long-term capital gains arising on sale of other assets and the balance short-term capital loss shall be carried forward for set off against capital gains, both short-term and long-term, in subsequent years.

Long-term capital loss on transfer of units is available for set off against only long-term capital gains arising on sale of other assets and the balance long-term capital loss shall be carried forward for set off only against long-term capital gains in subsequent years.

Carry forward of losses is admissible upto maximum of eight assessment years immediately succeeding the assessment year for which the loss was first computed.

c. Tax deducted at source ('TDS')

i) On income in respect of units

As per section 194K and section 196A, no tax shall be deducted at source from any income (other than income on transfer of units) credited or paid to Unit Holders in respect of units of a mutual fund specified under section 10(23D) of the Act.

ii) On capital gains

Resident investors

No tax is required to be deducted at source from capital gains arising at the time of repurchase/redemption of the units.

Non-resident investors – Other than FIIs

Please refer to the table provided in **Annexure A** for tax rates.

Non-resident investors - FIIs

No tax is required to be deducted at source from capital gains arising to an FII on repurchase/redemption of units in view of the provisions of section 196D(2) of the Act.

d. Surcharge and Cess

Resident Investors

A surcharge @ 7.5% is levied on tax payable by resident corporate if the total taxable income exceeds Rs.10 million. All non-corporate resident assesseees are not required to pay surcharge.

Non Resident Investors

In case of Foreign companies, surcharge is levied @ 2.5% on the tax payable, if the total taxable income exceeds Rs.10 million. All non-corporate non-resident assesseees are not required to pay surcharge.

An Education Cess of 2% and Secondary and Higher Education Cess of 1% (collectively referred to as 'education cess') are levied on tax plus surcharge, if applicable, payable by all assesseees.

Accordingly, the rates of tax mentioned above (other than TDS rates), will be increased by the applicable surcharge and cess.

In case of TDS on payments made to foreign companies, the tax rates (mentioned in **Annexure A**) would be increased by surcharge and education cess. In cases of TDS on payments made to non-residents (other than foreign companies), the tax rates would be increased only by education cess.

In case of TDS on payments made to residents, the tax rates would not need to be increased by surcharge and education cess.

e. Tax Treaty Benefits

As per Section 90 of the Act, in the case of a non-resident Unit Holder who is resident of a country with which India has signed a Double Taxation Avoidance Agreement ('DTAA'), which is in force, income tax is payable at the rate provided in the Act or at the rate provided in the such agreement, whichever is more beneficial to such non resident Unit Holder.

Further, where the rate of tax prescribed under the relevant DTAA is lower than that prescribed under the Act, tax would be withheld at such lower rate.

However, in order to obtain the benefit of the lower rate under the DTAA, the Unit Holder would be required to provide a certificate under Section 197 of the Act from his Assessing Officer stating the eligibility of the investor to claim such benefit.

f. Religious and Charitable Trust

Investment in Units of the Fund by Religious and Charitable Trusts is an eligible investment under section 11(5) of the Act, read with Rule 17C of the Income Tax Rules, 1962. However, such investment may be permitted only subject to the state legislation governing Religious and Charitable Trusts in this regard, wherever applicable.

2) Wealth Tax Act, 1957

Units held under the Scheme of the Fund are not treated as assets as defined under section 2(ea) of the Wealth tax Act, 1957 and therefore, would not be liable to wealth- tax.

3) Gift Tax Act, 1958

The Gift Tax Act, 1958 is now abolished.

B) TAX IMPLICATIONS FOR THE FUND

D) Taxation on investing in Mutual Funds

THE FOLLOWING INFORMATION IS PROVIDED FOR GENERAL INFORMATION PURPOSES ONLY AND APPLIES TO THE SCHEME. IN VIEW OF THE INDIVIDUAL NATURE OF TAX BENEFITS, EACH INVESTOR IS ADVISED TO CONSULT HIS OR HER OWN TAX CONSULTANT WITH RESPECT TO THE SPECIFIC TAX IMPLICATIONS ARISING OUT OF HIS OR HER PARTICIPATION IN THE SCHEME.

C) TAX IMPLICATIONS TO UNIT HOLDERS

The details of the relevant tax provisions stated herein are as per the Income-tax Act, 1961 as amended by the Finance Bill, 2011. The following is provided for general information purposes only. In view of the peculiarities that may arise as a result of each individual's circumstances, each client is advised to consult his/her own tax consultant with respect to the implication arising out of his or her investments. A high level discussion on the taxability of income arising from investment in securities is discussed in the following paragraphs.

1) Income-tax Act, 1961 ('the Act') as proposed to be amended by the Finance Bill, 2011

a. Income from units

As per section 10(35) of the Act, any income (other than income arising from transfer of the units) received in respect of the units of a Mutual Fund specified under section 10(23D) of the Act, is exempt in the hands of the Unit Holders.

b. Income arising from transfer of units

i) Long term capital gains

Under section 2(29A) read with section 2(42A) of the Act, units of the Scheme held as a capital asset are treated as a long-term capital asset if they are held for a period of more than twelve months immediately preceding the date of their transfer.

From the full value of consideration, the following amounts should be deducted to arrive at the amount of long-term capital gains:

- i. Cost of acquisition as adjusted by the cost inflation index notified by the Central Government in the Official Gazette; and
- ii. Expenditure incurred wholly and exclusively in connection with such transfer.

The additional units issued under the 'Reinvest Dividend' Option available in the Scheme and held as capital asset would get the benefit of long-term capital gains tax if sold after being held for more than 12 months. For this purpose, 12 months will be computed from the date when such additional units are allotted.

Please refer to the tax rates in **Annexure A**.

In case of non-resident Unit Holders eligible for availing tax treaty benefits, please refer to paragraph (e) below.

ii) Short-term capital gains

Under section 2(42A) of the Act, units of a mutual fund held as capital assets for a period of 12 months or less immediately preceding the date of their transfer are regarded as short-term capital assets.

Please refer to the tax rates in **Annexure A**.

In case of non-resident Unit Holders eligible for availing tax treaty benefits, please refer to paragraph (e) below.

iii) Business Income

Under section 28 of the Act, profit arising on transfer of units of a mutual fund which are held as stock in trade or trading asset, is taxed under the head 'Profits and Gains of Business or Profession'. Such profit is added to the total income of the assessee and taxed at the rates mentioned below:

Assessee Status	Tax Rate ² (plus surcharge and education cess, if applicable)
<u>Residents</u>	
Individuals, HUFs, association of persons, body of individuals and artificial juridical person	At the slab rates applicable
Firms, companies and local authority	30%
Non-residents (other than foreign Company)	At the slab rates applicable
Foreign Company	40%

In case of non-resident Unit Holders eligible for availing tax treaty benefits, please refer to paragraph (e) below.

² For surcharge and education cess, please refer paragraph (d)

iv) Avoidance of Tax by certain Transactions in Securities

As per section 94(7) of the Act, losses arising from the sale/transfer of units (including redemption) purchased up to 3 months prior to the record date and sold within 9 months after such date, will be disallowed to the extent of income distribution (excluding redemptions) on such units claimed as tax exempt by the unit holder.

Further, section 94(8) of the Act provides that any person who buys or acquires any units within a period of 3 months prior to the record date and such person is allotted additional units without consideration (bonus units) based on the original holding, any subsequent loss on sale of original units within a period of 9 months from the record date, will be ignored for computing the income chargeable to tax if the Unit Holder continues to hold all or any of the bonus units at the time of sale of original units. The loss so ignored will be deemed to be the cost of purchase or acquisition of bonus units (held at such time) when these bonus units are subsequently sold.

v) Securities Transaction Tax ('STT')

STT is levied on purchase or sale of a unit of an equity-oriented fund entered in a recognized stock exchange. The responsibility for the collection of the STT and payment to the credit of the Government is with the Stock Exchange. STT is also levied on sale of a unit of an equity-oriented fund to the Mutual Fund. In such a case, the responsibility for the collection of the STT and payment to the credit of the Government is with the Mutual Fund. The rates of STT are as follows:

	Nature of transaction	Rate of STT
A.	<u>Settled by actual delivery or transfer</u> Purchase of units of an equity oriented fund entered in a recognized stock exchange	Purchaser to pay 0.125 percent
	Sale of units of an equity oriented fund entered in a recognized stock exchange	Seller to pay 0.125 percent
B.	<u>Settled otherwise than by actual delivery or transfer</u> Sale of units of an equity oriented fund entered in a recognized stock exchange	Seller to pay 0.025 percent
C.	Sale of units of an equity oriented fund to the mutual fund	Seller to pay 0.25 percent

(Note: Equity-oriented fund means a fund, (i) which has been set up under a scheme of a Mutual Fund specified under clause (23D) of section 10 of the Act and (ii) where the investible funds are invested by way of equity shares in domestic companies to the extent of more than sixty five percent of the total proceeds of such fund)

vi) Set off and Carry-forward

Short-term capital loss on transfer of units is available for set off against both short-term and long-term capital gains arising on sale of other assets and the balance short-term capital loss shall be carried forward for set off against capital gains, both short-term and long-term, in subsequent years.

Long-term capital loss on transfer of units is available for set off against only long-term capital gains arising on sale of other assets and the balance long-term capital loss shall be carried forward for set off only against long-term capital gains in subsequent years.

Carry forward of losses is admissible upto maximum of eight assessment years immediately succeeding the assessment year for which the loss was first computed.

c. Tax deducted at source ('TDS')**i) On income in respect of units**

As per section 194K and section 196A, no tax shall be deducted at source from any income (other than income on transfer of units) credited or paid to Unit Holders in respect of units of a mutual fund specified under section 10(23D) of the Act.

ii) On capital gains*Resident investors*

No tax is required to be deducted at source from capital gains arising at the time of repurchase/redemption of the units.

Non-resident investors – Other than FIIs

Please refer to the table provided in **Annexure A** for tax rates.

Non-resident investors - FIIs

No tax is required to be deducted at source from capital gains arising to an FII on repurchase/redemption of units in view of the provisions of section 196D(2) of the Act.

d. Surcharge and Cess***Resident Investors***

A surcharge @ 5% is levied on tax payable by resident corporate if the total taxable income exceeds Rs.10 million. All non-corporate resident assesseees are not required to pay surcharge.

Non Resident Investors

In case of Foreign companies, surcharge is levied @ 2% on the tax payable, if the total taxable income exceeds Rs.10 million. All non-corporate non-resident assesseees are not required to pay surcharge.

An Education Cess of 2% and Secondary and Higher Education Cess of 1% (collectively referred to as 'education cess') are levied on tax plus surcharge, if applicable, payable by all assesseees.

Accordingly, the rates of tax mentioned above (other than TDS rates), will be increased by the applicable surcharge and cess.

In case of TDS on payments made to foreign companies, the tax rates (mentioned in **Annexure A**) would be increased by surcharge and education cess. In cases of TDS on payments made to non-residents (other than foreign companies), the tax rates would be increased only by education cess.

In case of TDS on payments made to residents, the tax rates would not need to be increased by surcharge and education cess.

e. Tax Treaty Benefits

As per Section 90 of the Act, in the case of a non-resident Unit Holder who is resident of a country with which India has signed a Double Taxation Avoidance Agreement ('DTAA'), which is in force, income tax is payable at the rate provided in the Act or at the rate provided in the such agreement, whichever is more beneficial to such non resident Unit Holder.

Further, where the rate of tax prescribed under the relevant DTAA is lower than that prescribed under the Act, tax would be withheld at such lower rate.

However, in order to obtain the benefit of the lower rate under the DTAA, the Unit Holder would be required to provide a certificate under Section 197 of the Act from his Assessing Officer stating the eligibility of the investor to claim such benefit.

f. Religious and Charitable Trust

Investment in Units of the Fund by Religious and Charitable Trusts is an eligible investment under section 11(5) of the Act, read with Rule 17C of the Income Tax Rules, 1962. However, such investment may be permitted only subject to the state legislation governing Religious and Charitable Trusts in this regard, wherever applicable.

2) Wealth Tax Act, 1957

Units held under the Scheme of the Fund are not treated as assets as defined under section 2(ea) of the Wealth tax Act, 1957 and therefore, would not be liable to wealth– tax.

3) Gift Tax Act, 1958

The Gift Tax Act, 1958 is now abolished.

D) TAX IMPLICATIONS FOR THE FUND

As the Fund has been registered with the Securities and Exchange Board of India (‘SEBI’) under the SEBI (Mutual Fund) Regulations, 1996, the entire income of the Fund is exempt from income tax under section 10(23D) of the Act.

The Money market, Liquid and Debt scheme would be subject to Dividend Distribution Tax (DDT). Please refer to the DDT rates in **Annexure A**.

An Equity oriented mutual fund is liable to collect and pay STT at the prescribed rate as outlined in paragraph (b-v) above,

At present, the Mutual Fund is liable for payment of service tax in the capacity of a service recipient, under the taxable category of “Business Auxiliary Services” for services received from distributors of mutual funds / agents. Further, Mutual Fund is also liable to discharge service tax in the capacity of a service recipient on the services, received from a non resident not having any place of business/ establishment in India which qualifies as import of service under the Finance Act, 1994 and allied rules. Presently, the effective rate of service tax is 10.3 percent (tax rate of 10 percent plus education cess of 3 percent).

Annexure A

	Open ended scheme		
Particulars	Equity (Note 1)	Money market, Liquid (Note 2)	Debt (Note 3)
Tax implications on investors			
Capital gains			
Resident			
<i>Short term capital gains</i>			
- Individuals and HUF	15%	slab rates	slab rates
- Corporate and firms	15%	30%	30%
<i>Long term capital gains</i>	Exempt	10% (without indexation)	10% (without indexation)
		20% (with indexation)	20% (with indexation)
Non resident - other than FII (Note 4)			
<i>Short term capital gains</i>			
- Corporate	15%	40%	40%
- Individuals	15%	slab rates	slab rates
- AOP/ BOI	15%	40% (Note 5)	40% (Note 5)

Long term capital gains	Exempt	20% ³	20%
Non resident - FII (Note 4)			
Short term capital gains	15%	30%	30%
Long term capital gains	Exempt	10%	10%
Dividends			
	Exempt	Exempt	Exempt
Rates for TDS			
Resident	Nil	Nil	Nil
Non resident - other than FII (Note 4)			
Short term capital gains			
- Non-residents (other than Company)	15%	30%	30%
- Foreign Company	15%	40%	40%
Long term capital gains	Exempt	20%	20%
Non resident - FII	Nil	Nil	Nil
Tax implications on Mutual Fund			
Income Tax	Exempt	Exempt	Exempt
Dividend Distribution Tax			
	Exempt	25% (individual and HUF)	12.5% (individual and HUF) ⁴
		30% (other than individual and HUF) ³	30% (other than individual and HUF) ³
Securities Transaction Tax	0.25% on the value of redemption	Not applicable	Not applicable
Service Tax	10% on payments to the distributors	10% on payments to the distributors	10% on payments to the distributors

Notes:

1. Being an equity oriented fund i.e. a fund where the investible funds are invested by way of equity shares in domestic companies to the extent of more than 65 percent of total proceeds of the fund.
2. Being a money market mutual fund or liquid fund as defined in the explanation to chapter XII-E of the Income Tax Act, 1961.
3. Not being a money market mutual fund or liquid fund as defined in the explanation to chapter XII-E of the Income Tax Act, 1961.
4. Non residents may claim treaty benefits. This category includes Qualified Foreign Investors [QFIs]
5. In cases where the shares of members are indeterminate and one of its member is a company. In other cases, the gains would be taxable at 30 percent.
6. The above rates (except STT) will be increased by applicable surcharge and education cess.

³ Based on judicial precedents, the tax payer may opt to apply the concessional rate of 10% plus applicable surcharge and cess on long-term capital gains earned (without indexation) on units of mutual fund.

⁴ Wef 1 June 2011

II) Legal Information

[1] Nomination Facility:

A Unit Holder can, at the time an application is made or by subsequently writing to an ISC, request for a nomination form in order to nominate any person to receive the Units upon his / her death, subject to the completion of certain necessary formalities e.g. providing proof of the death of the Unit Holder, signature of the nominee, furnishing proof of guardianship if the nominee is a minor, and the execution of an indemnity bond or such other documents as may be required from the nominee in favor of and to the satisfaction of the AMC / Registrar.

- Nomination should be maintained at the folio or account level and should be applicable for investments in all schemes in the folio or account.
- Where a folio has joint holders, all joint holders should sign the request for nomination/cancellation of nomination, even if the mode of holding is not “joint”. Nomination form cannot be signed by Power of attorney (PoA) holders.
- Every new nomination for a folio/account will overwrite the existing nomination.
- Even those investors who do not wish to nominate **must sign** separately confirming their non-intention to nominate.
- Nomination form/section in the application form should also have a provision for the signature of the nominee (or guardian of the nominee), though this may not be mandatory.
- Nomination should be not allowed in a folio held on behalf of a minor.
- Where the Units are held by more than one person jointly, all the joint Unitholders may together nominate a person by signing the nomination form indicating the name of the person in whom all the rights in the Units shall vest in the event of death of all the joint Unitholders.
- In case of multiple nominees, the ratio of nomination has to be clearly specified in the nomination form / request letter. If the ratio of nomination is not explicitly stated, then the nomination shall be treated as equal.
- The nomination can be made only by individuals applying for / holding Units on their own behalf singly or jointly. Non-individuals including society, trust, body corporate, partnership firm, Karta of Hindu Undivided Family.
- A minor can be nominated and in that event, the name and address of the Guardian of the minor Nominee shall be provided by the Unitholder.
- The Nominee shall not be a society, trust (other than a religious or charitable trust), body corporate, partnership firm, Karta of Hindu Undivided Family, holder of Power of Attorney. A non-resident Indian can be a Nominee subject to the exchange controls in force from time to time.
- Nomination will not be allowed in a folio held on behalf of a minor.
- Nomination shall be mandatory for new folios/accounts opened by individual especially with sole holding, no new folios can be opened for individuals in single holding without nomination or explicit confirmation alongwith signature in the application form confirming no-nomination.
- **Maximum number of Nominees:** The maximum number of nominees shall be limited to 3.
- **Percentage of allocation/share:**

- (i) Investors shall indicate clearly the percentage of allocation/share in favor of each of the nominees against their name and such allocation/share should be in whole numbers without any decimals making a total of 100 percent.
- (ii) In the event of the Unit holders not indicating the percentage of allocation/share for each of the nominees, the AMC, by invoking default option shall settle the claim equally amongst all the nominees.

A nomination in respect of Units will be treated as rescinded upon the Redemption of the Units. Cancellation of a nomination can be made only by the Unit Holders who made the original nomination and must be notified in writing. On receipt of a valid cancellation, the nomination shall be treated as rescinded and the AMC / Fund shall not be under any obligation to transfer the Units in favor of the nominee. The transfer of Units / payment to the nominee of the Redemption proceeds shall be valid and effectual against any demand made upon the Fund / AMC / Trustee and shall discharge the Fund / AMC / Trustee of all liability towards the estate of the deceased Unit Holder and his / her legal personal representative or other successors.

The Fund, the AMC and the Trustee are entitled to be indemnified from the deceased Unit Holder's estate against any liabilities whatsoever that any of them may suffer or incur in connection with a nomination.

This facility is subject to the law applicable to succession.

[2] Transactions on behalf of minors:

Where the account/folio (account) is opened on behalf of a minor, mutual funds and RTA should follow these guidelines, which are in line with the guidelines applicable to dematerialized accounts:

- The minor shall be the first and the sole holder in an account. There shall not be any joint accounts with minor as the first or joint holder.
- Guardian in the folio on behalf of the minor should either be a natural guardian (i.e. father or mother) or a court appointed legal guardian.
- AMCs shall mandatorily obtain information on the relationship/status of the guardian as father, mother or legal guardian in the application form.
- In case of natural guardian, AMC shall obtain a document evidencing the relationship if the same is not available as part of the documents submitted as per 2.3 below.
- In case of court appointed legal guardian, supporting documentary evidence shall be obtained
- Date of birth of the minor along with photocopy of supporting documents as enumerated below shall be mandatory while opening the account on behalf of minor:
- Birth certificate of the minor, or
- School leaving certificate / Mark sheet issued by Higher Secondary Board of respective states, ICSE, CBSE etc., or
- Passport of the minor, or
- Any other suitable proof evidencing the date of birth of the minor.

Minor Attaining Majority: When the units are held on behalf of the minor, the ownership of the units rests with the minor. A guardian operates the account until the minor attains the age of majority, when a minor turns major, mutual funds shall obtain relevant documents and follow the guidelines as enumerated below:

- Prior to minor attaining majority, mutual funds shall send advance notice to the registered correspondence address advising the guardian and the minor to submit an application form along with prescribed documents to change the status of the account to "major". The notice shall clearly state that all transactions including SIP,STP, SWP shall be suspended in case the documents to change the status are not received by the date when the minor attains majority.

- The account shall be frozen for operation by the guardian on the day the minor attains the age of majority and no transactions shall be permitted till the documents for changing the status as stated above are received.
- AMC shall suspend all standing instructions like SIPs, SWPs, STPs etc. from the date of the minor attaining majority, by giving adequate notice prior to that date.
- AMC shall register standing instructions like SIP,SWP,STP in a minor folio only till the date of the minor attaining majority, though the instructions may be for a period beyond that date.
- List of standard documents to change account status from minor to major:
 - [a] Services Request form, duly filled and containing details like name of major, folio numbers, etc.
 - [b] New Bank mandate where account changed from minor to major, Signature attestation of the major by a manager of a scheduled bank / Bank Certificate / Letter,
 - [c] KYC acknowledgement of the major.
- In case of existing folios where date of birth may not be available, AMCs shall obtain this information and update their records at the earliest.
- In case of existing standing instructions like SIP,SWP,STP which are registered for a period beyond the minor's date of majority, AMCs shall intimate such investors that the standing instructions will be executed only till the date of the minor attaining majority.

Change in Guardian: When there is a change in guardian either due to mutual consent or demise of existing guardian, mutual funds shall seek the following documents prior to registering the new guardian:

- Request letter from the new guardian,
- No Objection Letter (NoC) or Consent Letter from existing guardian or Court Order for new guardian, in case the existing guardian is alive.
- Notarized copy or attested copy of the Death Certificate of the deceased guardian, where applicable. The attestation may also be done by a special executive magistrate, AMC authorised official or manager of a scheduled bank.
- The new guardian must be a natural guardian (i.e. father or mother) or a court appointed legal guardian.
 - [a] AMCs shall mandatorily obtain information on the relationship/status of the guardian as father, mother or legal guardian in the application form.
 - [b] In case of natural guardian, AMC shall obtain a document evidencing the relationship if the same is not available as part of the documents submitted as per 2.3 below.
 - [c] In case of court appointed legal guardian, supporting documentary evidence shall be obtained
 - [d] Bank attestation attesting the signature of the new guardian in a bank account of the minor where the new guardian is registered as the guardian.
 - [e] KYC of the new guardian.

[3] **Anti Money Laundering and Know Your Customer (KYC):**

In terms of the Prevention of Money Laundering Act, 2002 the rules issued there under and the guidelines/circulars issued by SEBI regarding the Anti Money Laundering Laws, all intermediaries, including Mutual Funds, are required to formulate and implement a client identification program, and to verify and maintain the record of identity and address(es) of investors.

Know Your Client (KYC)

The need to "Know Your Customer" is vital for the prevention of money laundering. The AMC may seek information or obtain and retain documentation used to establish identity either on its own or through another

agency. It may re-verify identity and obtain any missing or additional information for this purpose. The AMC, under powers delegated by the Trustee, shall have absolute discretion to reject any application, prevent further transactions by a Unit Holder, delay in processing redemption as per applicable laws or regulations if –

(i) after due diligence, the investor/Unit Holder/a person making the payment on behalf of the investor does not fulfill the requirements of the KYC or the AMC believes that the transaction is suspicious in nature as regards money laundering. In this regard, the AMC reserves the right to reject any application and effect a mandatory Redemption of Units allotted at the applicable NAV.

(ii) the AMC determines in its sole discretion that the application does not or will not comply with any applicable laws or regulations.

KYC Compliance is mandatory for all investors irrespective of the amount of investment for the following transactions:

1. New / Additional Purchases,
2. Switch Transactions,
3. New Systematic Investment Plans registrations [including related products],
4. New Systematic Transfer Plan registrations [including related products].

KYC Compliance will be required for following cases as well, where applicable:

- [a] Power of Attorney [PoA] holder of an individual investor, where investment is made through PoA,
- [b] Each applicant of an application made in Joint names, and
- [c] Guardian in case of investments on behalf of a minor.

Pursuant to SEBI Circular No. MIRSD/ Cir-26/ 2011 dated December 23, 2011, SEBI (KYC Registration Agency) Regulations, 2011 and SEBI Circular No. MIRSD/SE/Cir-21/2011 dated October 5, 2011, the following would append to all scheme related documents issued by Morgan Stanley Mutual Fund on or before the date of this document:

1. Effective January 1, 2012 SEBI has introduced a common KYC Application Form for all the SEBI registered intermediaries viz. Mutual Funds, Portfolio Managers, Depository Participants, Stock Brokers, Venture Capital Funds, Collective Investment Schemes, etc.
2. The KYC process can be completed by filling up the Common KYC Application form along with In-Person Verification [IPV] with any SEBI registered intermediaries including mutual funds.
3. The AMC or the Registrar & Transfer Agent of the Mutual Fund may undertake the KYC of the investors and upload the details of the investor on the system of the KYC Registration Agency [KRA]. The KRA shall send a letter to the investor within 10 working days of the receipt of the initial/updated KYC documents from the Mutual Fund, confirming the details thereof.
4. The IPV carried out by any SEBI registered intermediary can be relied upon by the Mutual Fund. The AMC and NISM / AMFI certified distributors who are KYD compliant would be authorized to undertake the IPV. Further, in case of any applications received directly (i.e. without being routed through the distributors) from the investors, the Mutual Fund may rely upon the IPV (on the KYC Application Form) performed by the scheduled commercial banks.

For KYC completed on or after January 1, 2012 with a SEBI registered intermediary, the investor would not need to undergo the same process with another intermediary including mutual funds. However, the Mutual Fund reserves the right to carry out fresh KYC of the investor. For KYC completed before January 1, 2012, Investors could continue to invest in Mutual Funds though the same will not be valid as uniform KYC requirement across other SEBI registered Intermediaries and the uniform KYC would need to be completed.

Permanent Account Number [PAN] Details:

SEBI has made it mandatory for all applicants [in case of application in joint names, each of the applicants] to mention his/her Permanent Account Number [PAN] irrespective of the amount of investment*. If the applicant is a minor, and does not possess his/her own PAN, he/she shall quote the PAN of his/her father or mother or guardian, as the case may be. In order to verify whether the PAN details are quoted correctly in the application form, the applicants shall enclose a photocopy of the PAN card duly attested by the ARN distributors, ISCs of Morgan Stanley Mutual Fund, bank managers or judicial authorities. Attestation will be done after verification with the original PAN card.

Exception: Pursuant to SEBI's circular MRD/DoP/MF/Cir-08/2008 dated April 03, 2008, investors residing in the State of Sikkim are exempt from the requirement of PAN, would be required to submit one address proof attested by the investor and also by the distributor, where applicable.

* includes fresh purchase, additional purchase, Systematic Investment.

Applications which do not comply with the above shall be rejected.**Systematic Investment Plan [SIPs] up to Rs. 50,000/- exempt from Permanent Account Number [PAN]**

In compliance with SEBI letter No. MRD/DoP/PAN/PM/166999/2009, dated June 19, 2009 issued to Association of Mutual Funds in India [AMFI], and subsequent guidelines issued by AMFI in this regard, effective August 1, 2009, SIPs up to Rs. 50,000/- per year per investor at Fund House level i.e. aggregate of installments in a rolling 12 month period or in a financial year i.e. April to March [to be referred as "Micro SIP"] shall be exempt from the requirement of PAN.

This exemption shall be applicable to investments by individuals [including NRIs], minors, and sole proprietary firms. Such exemption shall be applicable to joint holders also. However, PIOs, HUFs, Partnership Firms, Companies, Societies, Trusts and any other category of investors investing up to Rs. 50,000/- as above shall not be eligible for such exemption. Further, this exemption will not be applicable for lump-sum purchase transaction up to Rs. 50,000/- which will continue to be subject to PAN requirement.

In lieu of PAN, any one of the following photo identification documents can be submitted along with Micro SIP applications as proof of identification:

1. Voter Identity Card
2. Driving License
3. Government/Defense identification card
4. Passport
5. Photo Ration Card
6. Photo Debit Card
7. Employee ID cards issued by companies registered with Registrar of Companies
8. Photo Identification issued by Bank Managers of Scheduled Commercial Banks/Gazette Officer/Elected Representatives to the Legislative Assembly/Parliament
9. ID card issued to employees of Scheduled Commercial/State/District Co-operative Banks
10. Senior citizen/Freedom Fighter ID card issued by Government
11. Cards issued by Universities/Deemed Universities or Institutes under statutes like ICAI, ICWA, ICSI
12. Permanent Retirement Account Number [PRAN] card issued to New Pension System [NPS] subscribers by Central Recordkeeping Agency [NSDL] and
13. Any other photo ID card issued by Central Government/State Governments/Municipal authorities/ Government organizations like ESIC/EPFO.

The Photo identification document has to be current and valid and also either self-attested or attested by an ARN holder mentioning the ARN number.

In addition to the above, Investors would be required to submit one address proof attested by the investor and also the distributor [where applicable] pursuant to the new KYC requirements.

Suspicious Transaction Reporting:

If after due diligence, the AMC believes that the transaction is suspicious in nature as regards money laundering, the AMC shall report any suspicious transactions to competent authorities under the PMLA and rules / guidelines issued there under by SEBI and RBI, furnish any such information in connection therewith to such authorities and take any other actions as may be required for the purposes of fulfilling its obligations under the PMLA without obtaining the prior approval of the investor / Unit Holder / a person making the payment on behalf of the investor.

[4] Listing and Transfer of Units:

The Schemes being open ended, the Units are not proposed to be listed on any stock exchange and no transfer facility is provided. However, the Fund may at its sole discretion list the Units on one or more stock exchanges or provide for transfer and issue of transferable unit certificates at a later date.

The Fund will offer and redeem the Units on a continuous basis after the NFO Period.

As the Scheme stands ready to redeem Units on a continuous basis as laid down herein, the transfer facility is found redundant. Units of the Scheme shall therefore be non transferable. However, if a transferee becomes a holder of Units by operation of law including upon enforcement of a pledge, then the fund may, subject to production of such evidence, which in their opinion is sufficient, proceed to effect the transfer within 30 days from the date of lodgment if the intended transferee is otherwise eligible to hold the Units.

[5] Transferability of units held in demat form:

Pursuant to SEBI circular CIR/IMD/DF/10/2010 dated August 18, 2010, the units of the Schemes of MSMF held in dematerialised form would be freely transferable [except for cases where lock-in periods are applicable] from one demat account to another. The provisions with respect to transmission of such dematerialized units will be governed by SEBI [Depository Participants] Regulations, 1996. Investors are requested to refer to the Scheme Information Document [and addenda issued thereto] for more information in this regard.

[6] Transmission of Units:

If Units are held in a single name by the Unit Holder, Units shall be transmitted in favor of the nominee where the Unit Holder has appointed a nominee upon production of death certificate or any other documents to the satisfaction of the AMC / Registrar. If the Unit Holder has not appointed a nominee or in the case where the nominee dies before the Unit Holder, the Units shall be transmitted in favor of or as otherwise directed by the Unit Holder's personal representative(s) on production of the death certificate and / or any other documents to the satisfaction of the AMC / Registrar. If Units are held by more than one registered Unit Holder, then, upon death of one of the Unit Holders, the Units shall be transmitted in favor of the remaining Holder(s) (in the order in which the names appear in the register of Unit Holders with the Registrar) on production of a death certificate and/or any other documents to the satisfaction of the AMC/Registrar and to the nominee only upon death of all the Unit Holders. This facility is subject to the law applicable to such succession.

Following is the list of documents required in case of transmission [as applicable]:

Transmission to surviving unit holders in case of death of one or more unitholders:

- Letter from surviving unitholders to the Fund / AMC / RTA requesting for transmission of units,
- Death Certificate in original or photocopy duly notarized or attested by gazette officer or a bank manager,
- Bank Account Details of the new first unit holder along with attestation by a bank branch manager or cancelled cheque bearing the account details and account holders name.
- KYC of the surviving unit holders, if not already available.

Transmission to registered nominee/s in case of death of Sole or All unit holders:

- Letter from claimant nominee/s to the Fund / AMC / RTA requesting for transmission of units,
- Death Certificate/s in original or photocopy duly notarized or attested by gazette officer or a bank manager,
- Bank Account Details of the new first unit holder along with attestation by a bank branch manager or cancelled cheque bearing the account details and account holders name.
- KYC of the claimant/s,

If the transmission amount is Rs One Lakh or more:

- a. Indemnity duly signed and executed by the nominee/s as per prescribed format

Transmission to claimant/s, where nominee is not registered, in case of death of Sole or All unit holders:

- Letter from claimant/s to the Fund / AMC / RTA requesting for transmission of units,
- Death Certificate/s in original or photocopy duly notarized or attested by gazette officer or a bank manager,
- Bank Account Details of the new first unit holder as per along with attestation by a bank branch manager or cancelled cheque bearing the account details and account holders name.
- KYC of the claimant/s,
- Indemnity Bond from legal heir/s
- Individual affidavits from legal heir/s
- If the transmission amount is below Rs One Lakh: any appropriate document evidencing relationship of the claimant/s with the deceased unitholder/s.
- If the transmission amount is Rs One Lakh or more: Any one of the documents mentioned below:
 - a. Notarised copy of Probated Will, or
 - b. Legal Heir Certificate or Succession Certificate or Claimant's Certificate issued by a competent court, or
 - c. Letter of Administration, in case of Intestate Succession.

Transmission in case of HUF, due to death of Karta:

HUF, being a Hindu Undivided Family, the property of the family is managed by the Karta and HUF does not come to an end in the event of death of the Karta. In such a case, the members of the HUF will appoint the new Karta who needs to submit following documents for transmission:

- Letter Requesting for change of Karta,
- Death Certificate in original or photocopy duly notarized or attested by gazette officer or a bank manager,
- Duly certified Bank certificate stating that the signature and details of new Karta have been appended in the bank account of the HUF
- KYC of the new Karta and KYC of HUF, if not already available.
- Indemnity bond signed by all the surviving coparceners and new Karta
- In case of no surviving co-parceners OR the transmission amount is Rs One Lakh or more OR where there is an objection from any surviving members of the HUF, transmission should be effected only on the basis of any of the following mandatory documents:
 - a. Notarized copy of Settlement Deed, or
 - b. Notarized copy of Deed of Partition, or
 - c. Notarized copy of Decree of the relevant competent Court

Clarifications

- It is clarified that PAN card copy or another proof of identity of claimant/s is not required separately if KYC acknowledgement issued by CVL is made available.
- Where the units are to be transmitted to a claimant who is a minor, various documents like KYC, PAN, Bank details, indemnity should be of the guardian of the nominee.

[7] Duration of the Scheme [Open Ended Schemes]:

The duration of the Schemes are perpetual. However, in accordance with the Regulations, the Scheme may be wound up, after repaying the amount due to the Unit Holders:

- a) on the happening of any event which, in the opinion of the Trustees, require the Scheme to be wound up; or
- b) if 75% of the Unit Holders of the Scheme pass a resolution that the Scheme be wound up; or
- c) if SEBI so directs in the interests of Unit Holders. If the Scheme is so wound up, the Trustees shall give notice of the circumstances leading to the winding up of the Scheme:
 - i) to SEBI; and

ii) in two daily newspapers having a circulation all over India, and in a vernacular newspaper with circulation in Mumbai.

On and from the date of the publication of notice of winding up, the Trustees or the AMC, as the case may be, shall

- a) cease to carry on any business activities in respect of the Scheme so wound up;
- b) cease to create or cancel Units in the Scheme; and
- c) cease to issue or redeem Units in the Scheme.

[8] Procedure and manner of Winding Up:

The Trustees shall call a meeting of the Unit Holders to approve, by simple majority of the Unit Holders present and voting at the meeting, a resolution authorizing the Trustees or any other person to take steps for winding up of the Scheme.

The Trustees, or other person authorized as above, shall dispose of the assets of the Scheme concerned in the best interest of Unit Holders of the Scheme. The proceeds of sale shall be first utilized towards discharge of such liabilities as are due and payable under the Scheme, and, after meeting the expenses connected with the winding up, the balance shall be paid to the Unit Holders in proportion to their respective interests in the assets of the Scheme, as on the date when the decision for winding up was taken.

On completion of the winding up, the Trustees shall forward to SEBI and Unit Holders a report on the winding up, detailing, the circumstances leading to the winding up, the steps taken for disposal of the assets of the Scheme before winding up, net assets available for distribution to the Unit Holders and a certificate from the Auditors of the Fund.

Notwithstanding anything contained herein above, the provisions of the SEBI Regulations in respect of disclosures of half-yearly reports and annual reports shall continue to be applicable until winding up is completed or the Scheme ceases to exist.

After the receipt of the Trustees report referred to above, and if SEBI is satisfied that all measures for winding up of the Scheme have been complied with, the Scheme shall cease to exist.

On and from the date of the publication of the notice of winding up as stated above, the Trustees or the AMC as the case may be, shall:

- (a) cease to carry on any business activities in respect of the Scheme so wound up;
- (b) cease to create or cancel Units in the Scheme;
- (c) cease to issue or redeem Units in the Scheme.

III) General Information

[1] Inter-Scheme Transfer of Investments:

Transfers of investments from one scheme to another scheme in the same mutual fund shall be allowed only if -

- (a) such transfers are done at the prevailing market price for quoted instruments on spot basis.

Explanation: "spot basis" shall have same meaning as specified by stock exchange for spot transactions.

- (b) the securities so transferred shall be in conformity with the investment objective of the scheme to which such transfer has been made.

[2] Associate Transactions:

[i] Subscription by the scheme/s in the issues lead managed by associate companies:

AMC has not utilized the services of the Sponsor or any of its affiliates, employees or their relatives for the purpose of any securities transaction as specified under Regulation 25(8) of the regulations. However, during the last three financial years [2010-11, 2009-2010 and 2008-2009] the Schemes of Morgan Stanley Mutual Fund subscribed to the issue of equity shares of the following companies where Morgan Stanley India Company Private Limited, an associate of AMC was the lead manager/co-manager to these issues.

The subscriptions were however made through non-affiliate entities as listed below:

Security	Period	Investment made by Scheme	Amount invested [Rs. in Crore]	Mode	Non- affiliate broker through whom applications were made
Coal India Ltd	2010-2011	MS ACE	1.43	IPO	ENAM Securities Private Ltd
Oberoi Realty Ltd	2010- 2011	MSGF	3.43	IPO	J.P. Morgan India Private Ltd
	2010- 2011	MS ACE	0.87		
IDFC Ltd	2010-2011	MSGF	33.03	QIP	IDFC
Yes Bank	2009-2010	MSGF	10.187	QIP	CLSA
India Bulls Financial Services Ltd	2009- 2010	MSGF	13.71	QIP	Collin Stewart Inga
IndusInd Bank Ltd	2009- 2010	MSGF	26.25	QIP	IDFC- SSKI
Adani Power Ltd	2009- 2010	MS ACE	0.40	IPO	IDFC- SSKI
Oil India Ltd.	2009- 2010	MS ACE	0.30	IPO	JM Financial
HCC Ltd.	2009-2010	MSGF	39.32	QIP	Collin Stewart Inga

Please note that during 2008-2009, no subscriptions were made to issues where Morgan Stanley India Company Private Limited was the lead manager/co-manager to the issue. The same also holds true for the period April to September 2011.

- [ii] Associate companies of the Sponsor/Asset Management Company whose services are utilized/may be utilized by the Asset Management Company:
- [a] The AMC, has entered into an agreement with MSIM Global and Support Technology Services Pvt. Ltd. ["MSIM GSTS"], appointing them for execution of equity trade orders placed by the fund manager for schemes of the Fund and certain services in the nature of some of the back office operations of the AMC. The cost of obtaining such services is entirely borne by the AMC and is not charged to the scheme/s.
- [b] The Asset Management Company may utilize the services of Morgan Stanley India Financial Services Pvt. Ltd. ["MSFS"] to market and/or distribute the scheme/s of the Mutual Fund. The services, whenever utilized, will be in accordance with/subject to SEBI Regulations, and on commercial terms, on arms-length basis at mutually agree terms and conditions. The AMC shall ensure that no undue advantage is given to MSFS while utilizing their services.

Below are the details of distribution fees paid by MSMF:

Name of associate/related parties/group companies of Sponsor/AMC	Nature of Association/Nature of relation	Period Covered April 2008 to March 2011	Value of transaction (in Rs. Cr. & % of total value of transaction of the fund)		Distribution Fees (net off education cess and service tax) (Rs. Cr.& % of total brokerage paid by the fund)	
			Value In crores	% of value of total transaction	Distribution fees paid in Crores	% of value of total Distribution fees paid
Morgan Stanley India Financial Services Pvt Ltd	Associate	April 08- March 09	Nil			
		April 09- March 2010:				
		June, 2009	1.02	0.05	0.00028	0.04
		July, 2009	2.13	0.09	0.03099	2.53
		August, 2009	2.54	0.11	0.00114	0.79
		September, 2009	2.84	0.12	0.01036	1.57
		October, 2009	1.83	0.08	0.00296	3.41
		November, 2009	2.68	0.12	0.00263	2.99
		December, 2009	3.26	0.14	0.00656	1.07
		January, 2010	6.07	0.28	0.02004	9.42

February, 2010	7.77	0.36	0.01513	11.55
March, 2010	9.71	0.43	0.02039	2.65
April 2010 to March 2011:				
April 2010	3.72	3.66	0.02462	6.48
May 2010	0.77	1.00	0.00830	4.77
June 2010	1.43	4.60	0.02491	3.33
July 2010	7.61	8.54	0.00636	4.75
August 2010	3.13	5.18	0.00595	3.41
September 2010	1.33	2.08	0.02576	3.09
October, 2010	0.30	0.39	0.00220	0.89
November, 2010	2.13	2.69	0.01798	2.51
December, 2010	0.90	2.74	0.02393	2.37
January, 2011	1.32	4.02	0.00650	2.78
February, 2011	0.16	0.35	0.00143	0.96
March, 2011	1.02	3.10	0.05521	5.38
April 2011 to September 2011:				
April, 2011	0.27	0.37	0.00046	0.27
May, 2011	0.10	0.26	0.00095	0.91
June, 2011	0.02	0.06	0.03464	3.83
July, 2011	0.02	0.09	0.00019	0.32
August, 2011	0.02	0.08	0.00019	0.13
September, 2011	174.77	12.61	0.03679	4.30

- [c] The Asset Management Company may also utilize the services of Morgan Stanley India Company Pvt. Ltd. [“MSIC”] to purchase or sell securities through MSIC, the associate broker. The services, whenever utilized, will be in accordance with/subject to SEBI Regulations, and on commercial terms, on arms-length basis at mutually agree terms and conditions. The AMC shall ensure that no undue advantage is given to MSIC while utilizing their services.
- [d] The Asset Management Company may also utilize the services of Morgan Stanley India Primary Dealer Pvt. Ltd. [“MSPD”] as a counter party for transactions in debt/ fixed income securities. The services, whenever utilized, will be in accordance with/subject to SEBI Regulations, and on commercial terms, on arms-length basis at mutually agree terms and conditions. The AMC shall ensure that no undue advantage is given to MSPD while utilizing their services.

The AMC may utilize any other services of the aforesaid companies to the extent permitted under the SEBI Regulations on commercial terms, and on arms-length basis at mutually agreed terms and conditions. Further, apart from the above, AMC may, in future, utilize the services of Sponsor, group companies and any other subsidiary or associate companies of the Sponsor established or to be established at a later date, who is in a position to provide the requisite services to the AMC. In such circumstances, appropriate disclosure shall be made in this regard in SAI.

[iii] None of the schemes of the Mutual Fund has invested more than 25% of its net assets in group companies of the Sponsor at any point of time.

[iv] Other activities of the AMC:

MSIMPL provides services in the nature of non-binding investment advisory and related support services to the various funds under management of MSIM Inc. The AMC has systems in place to ensure that there is no conflict of interest between the aforesaid activities and activities performed by the AMC towards Morgan Stanley Mutual Fund.

[3] Documents Available for Inspection:

The following documents shall be available for inspection at the office of the Mutual Fund at Forbes Building, Charanjit Rai Marg, Mumbai – 400 001 during business hours on any day (excluding Saturdays, Sundays and public holidays):

- Memorandum and Articles of Association of the AMC
- Investment Management Agreement
- Trust Deed and amendments thereto, if any
- Mutual Fund Registration Certificate
- Agreement between the Mutual Fund and the Custodian
- Agreement with Registrar and Share Transfer Agents
- Consent of Auditors to act in the said capacity
- Consent of Legal Advisors to act in the said capacity
- Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 and amendments from time to time thereto. Indian Trusts Act, 1882.

[4] Investor Grievances Redressal Mechanism:

The Mutual Fund believes in providing the investor with superior services to make the investor's experience in dealing with the Mutual Fund an efficient and satisfactory one. In order to achieve these goals, the Mutual Fund will endeavor to continuously establish and upgrade systems to handle transactions efficiently and resolve any investor grievances promptly.

The investors can enquire about NAVs, Unit holdings, Dividends etc. or lodge any service request at Karvy Computershare Private Limited. 21, Avenue 4, Street Number 1, Banjara Hills, Hyderabad 500 034. Alternatively, investors can call at the AMC branch offices or the toll free number 1800 425 1313 for any information. In order to protect confidentiality of information, the service representatives may require personal information of the investor for verification of his/her identity. The AMC will at all times endeavor to handle transactions efficiently and to resolve any investor grievances promptly.

Investor grievances should be addressed to Investor Services at the AMC branch offices, or Karvy Investor Service Centres. All grievances will then be forwarded to the Registrar, for necessary action. The complaints will closely be followed up the Registrar, and AMC shall ensure timely redressal and prompt investor service.

Investors may contact the ISCs and/or offices of the AMC for any queries/complaints or clarifications.

Mr. Sidhartha Gupta has been appointed as the Investor Relations Officer and he may be contacted at 18F/ 19 F, One Indiabulls Centre, Tower 2, Senapati Bapat Mrg, 841, Jupiter Mills Compound, Elphinstone Road, Mumbai, 400 013 for written communication and mfinvestorcare@morganstanley.com.

Customer Service Executives of Morgan Stanley Mutual Fund can be reached at the following toll free number: - 1800 425 1313.

[a] The investor complaints history for last three financial years, namely, 2010-11, 2009-2010, 2008-2009, is provided below:

Nature of Complaint	Total no. of complaints received for the period from April 1, 2008 to March 31, 2011
Received from Stock Exchange	11
Received from SEBI	175
Legal Enquiry/ Notice	19
Complaints/Queries received directly	12570

[b] The investor complaints history for the period April 1, 2011 to November 30, 2011 is as follows:
Total number of folios as on November 30, 2011: 423663

Complaint code	Type of complaint#	(a) No. of complaints pending at the beginning of the year	Action on (a) and (b)									
			(b) No of complaints received during the period	Resolved				Non Action-able*	Pending			
				Within 30 days	30 - 60 days	60 to 180 days	Beyond 180 days		0-3 months	3-6 months	6-9 months	9-12 months
I A	Non receipt of Dividend on Units	-	82	82	-	-	-	-	-	-	-	-
I B	Interest on delayed payment of Dividend	-	-	-	-	-	-	-	-	-	-	-
I C	Non receipt of Redemption Proceeds	-	248	248	-	-	-	-	-	-	-	-
I D	Interest on delayed payment of Redemption	-	1	1	-	-	-	-	-	-	-	-
II A	Non receipt of Statement of Account/Unit Certificate	-	50	50	-	-	-	-	-	-	-	-
II B	Discrepancy in Statement of Account	-	-	-	-	-	-	-	-	-	-	-
II C	Non receipt of Annual Report/Abridged Summary	-	-	-	-	-	-	-	-	-	-	-
III A	Wrong switch between Schemes	-	-	-	-	-	-	-	-	-	-	-
III B	Unauthorized switch between Schemes	-	-	-	-	-	-	-	-	-	-	-
III C	Deviation from Scheme attributes	-	-	-	-	-	-	-	-	-	-	-
III D	Wrong or excess charges/load	-	6	6	-	-	-	-	-	-	-	-
III E	Non updation of changes viz. address, PAN, bank details, nomination, etc	-	151	151	-	-	-	-	-	-	-	-
IV	Others	-	450	449	-	-	-	-	1	-	-	-
TOTAL			988	987								

including against its authorized persons/ distributors/ employees. etc.

*Non actionable means the complaint that are incomplete / outside the scope of the mutual fund.

Note: The type of complaints in the category “others” mentioned above includes the following: Complaints forwarded by Stock Exchanges as well as SEBI, Legal complaints, non-receipt of certificates sent for transfer, transfer of units, power of attorney, complaints related to special products, correction in e-mail ids, Plan/Option/Mode of holding, change of legal status, loss of certificates/conversion of scheme into open-ended scheme, transmission of units, pledge of units, demat related etc.

[5] Securities Lending by the Mutual Fund:

If permitted by SEBI under Regulations/guidelines, the Scheme may also engage in securities lending. The AMC shall comply with all reporting requirements and the Trustee shall carry out periodic review as required by SEBI guidelines. Securities lending means the lending of stock to another person or entity for a fixed period of time, at a negotiated compensation. The securities lent will be returned by the Borrower on expiry of the stipulated period.

The Investment Manager will apply the following limits, should it desire to engage in Securities lending:

- a) Not more than 20% of the net assets of the Scheme can generally be deployed in securities lending; and
- b) Not more than 5% of the net assets of the Scheme can generally be deployed in securities lending to any single counter party.

Risk Factors Associated with Securities Lending:

The risks in lending securities, as with other extensions of credit, consist of the failure of another party, in this case the approved intermediary, to comply with the terms of agreement entered into between the lender of securities i.e. the Scheme and the approved intermediary. Such failure to comply with can result in the possible loss of rights in the collateral put up by the borrower of the securities, the inability of the approved intermediary to return the securities deposited by the lender and the possible loss of any corporate benefits accruing to the lender from the securities deposited with the approved intermediary. The Mutual Fund may not be able to sell such lent securities and this can lead to temporary illiquidity.

[6] Borrowing by the Mutual Fund:

Under the Regulations, the Fund is allowed to borrow to meet the temporary liquidity needs of the Scheme for the purpose of repurchase, Redemption of Units or payment of interest or dividend to the Unit Holders. Further, as per Regulations, the Fund shall not borrow more than 20% of the net assets of the Scheme and the duration of such borrowing shall not exceed a period of 6 months. The Fund may enter into necessary arrangements with banks / financial institutions for borrowing purposes. The Scheme may bear the interest charged on such borrowing provided the total recurring expenses of the scheme are within the limits prescribed under the regulations.

None of the schemes of the Mutual Fund borrowed for the financial year ended March 31, 2011.

[7] Underwriting by the Mutual Fund:

Subject to SEBI Regulations, the Scheme(s) may enter into underwriting agreements after the Mutual Fund obtains the necessary registration in terms of the Securities and Exchange Board of India (Underwriters) Regulations, 1993 and the Securities and Exchange Board of India (Underwriters) Rules, 1993 authorizing it to carry on activities as underwriters. The capital adequacy norms for the purpose of underwriting shall be the net assets of the Scheme(s) and the underwriting obligation of the Scheme(s) shall not at any time exceed the total Net Asset Value of the Scheme(s). For the purposes of the Regulations, the underwriting obligation will be deemed as if investments are made in such securities.

Notwithstanding anything contained in this Statement of Additional Information, the provisions of the SEBI (Mutual Funds) Regulations, 1996 and the guidelines there under shall be applicable.
