

Morgan Stanley
Funds (UK)

Annual Report

30th September 2012

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About Morgan Stanley Funds (UK)

Morgan Stanley Funds (UK) (the “Company”) is an investment company with variable capital (“ICVC”), also known as Open Ended Investment Company (“OEIC”). The Company is incorporated in England and Wales, and is authorised by the Financial Services Authority. The Company currently consists of three sub-funds (“Funds”), each with a different investment objective.

About Morgan Stanley and Morgan Stanley Investment Management Limited

Morgan Stanley is an award winning investment bank with excellence in each of its core businesses: investment management, securities and credit services. Worldwide resources span 30 countries and include over 45,000 employees located in over 600 offices. Morgan Stanley Investment Management, a division of Morgan Stanley manages assets in excess of \$330 billion.

Morgan Stanley Investment Management Limited, a division of Morgan Stanley Investment Management, offers one of the industry's broadest product selections, with investment strategies covering all major markets, asset classes and investment styles. It manages a full range of equities and fixed income investments in developed and emerging markets and products are offered through a variety of investment vehicles designed to meet client's differing needs.

19th November 2012

Directory

REGISTERED OFFICE

25 Cabot Square
Canary Wharf
London
E14 4QA
United Kingdom

AUTHORISED CORPORATE DIRECTOR

Morgan Stanley Investment Management (ACD) Limited
25 Cabot Square
Canary Wharf
London
E14 4QA
United Kingdom
Authorised and regulated by The Financial Services Authority

DEALING OFFICE

International Financial Data Services Limited
PO Box 9025
Chelmsford
CM99 2WE
United Kingdom
Phone 0800 328 1571

INVESTMENT MANAGER

Morgan Stanley Investment Management Limited
25 Cabot Square
Canary Wharf
London
E14 4QA
United Kingdom
Authorised and regulated by The Financial Services Authority

ADMINISTRATOR

State Street Bank and Trust Company
20 Churchill Place
London
E14 5HJ
United Kingdom

DEPOSITARY

State Street Trustees Limited
525 Ferry Road
Edinburgh
EH5 2AW
United Kingdom
Authorised and regulated by The Financial Services Authority

INDEPENDENT AUDITORS

Ernst & Young LLP
Ten George Street
Edinburgh
EH2 2DZ
United Kingdom

LEGAL ADVISERS

Eversheds LLP
One Wood Street
London
EC2V 7WS
United Kingdom

Report of the Authorised Corporate Director of Morgan Stanley Funds (UK)

For the year ended 30th September 2012

The Authorised Corporate Director (“ACD”) of Morgan Stanley Funds (UK) (the “Company”) is Morgan Stanley Investment Management (ACD) Limited. The ACD is the sole director of the Company. The Depositary is State Street Trustees Limited and the Independent Auditor’s are Ernst & Young LLP.

The Company is an authorised open-ended investment company with variable capital under Regulation 12 (Authorisation) of the OEIC regulations and the shareholders of the Funds are not liable for the debts of the Company. The Company is structured as an umbrella company with each underlying sub-fund (“Fund”) having the investment powers equivalent to those of a securities company. In the future, there may be other Funds within the Company. As each Fund is not a legal entity, if the assets attributable to any Fund were insufficient to meet the liabilities attributable to it, the shortfall might have to be met out of the assets attributable to one or more other Funds of the Company.

The investment objective of each Fund, the Company’s policy for pursuing that objective and a review of each Fund’s investment activities for the relevant year are set out in the individual Fund reviews contained in this Annual Report and Financial Statements.

STATEMENT OF AUTHORISED CORPORATE DIRECTOR’S RESPONSIBILITIES

These annual financial statements have been prepared by the ACD in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association (IMA) in October 2010 and the rules contained in the Financial Services Authority’s Collective Investment Scheme Sourcebook (together the “Regulations”) and give a true and fair view of the net revenue and gains of the scheme property of the Company and each Fund and the financial position of the Company and each Fund at the end of the accounting year.

The ACD is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and enables the ACD to ensure that the financial statements comply with the Regulations. In preparing this annual report, the Authorised Corporate Director has:

- prepared the financial statements on a going concern basis;
- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- followed applicable accounting standards; and
- prepared financial statements in accordance with the Statement of Recommended Practice for Authorised Funds issued by the IMA in October 2010.

The ACD confirms that they have complied with the above requirements in preparing the financial statements. The ACD is responsible for the management of the Company in accordance with the Company’s Instrument of Incorporation, Prospectus and the Regulations. The ACD is responsible for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Simon Pearson
Director
on behalf of

Morgan Stanley Investment Management (ACD) Limited
as Authorised Corporate Director of Morgan Stanley Funds (UK)
19th November 2012

Report of the Depositary to the Shareholders of Morgan Stanley Funds (UK) (the “Company”)

For the year ended 30th September 2012

The Depositary is responsible for the safekeeping of all the property of the Company (other than tangible moveable property) which is entrusted to it. It is the duty of the Depositary to take reasonable care to ensure that the Company is managed in accordance with the rules set out in the Financial Services Authority’s Collective Investment Schemes Sourcebook (“COLL”), the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228) (the “OEIC Regulations”), and the Company’s Instrument of Incorporation, in relation to: the pricing of, and dealings in, shares in the Company; the application of income of the Company; and the investment and borrowing powers of the Company.

Having carried out such procedures as we consider necessary to discharge our responsibilities as Depositary of the Company, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Company, acting through the Authorised Corporate Director:

- has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Company’s shares and the application of the Company’s income in accordance with the COLL and, where applicable, the OEIC Regulations and the Instrument of Incorporation of the Company; and
- has observed the investment and borrowing powers and restrictions applicable to the Company.

STATE STREET TRUSTEES LIMITED

Edinburgh

19th November 2012

Independent Auditor's Report to the Shareholders of Morgan Stanley Funds (UK) (the "Company")

We have audited the financial statements of Morgan Stanley Funds (UK) (the "Company") for the year ended 30th September 2012 which comprise the Aggregated Statement of Total Return, the Aggregated Statement of Change in Net Assets Attributable to Shareholders, Aggregated Balance Sheet, the related notes 1 to 13, together with the Statement of Total Return, the Statement of Change in Net Assets Attributable to Shareholders, Balance Sheet, Distribution Tables and the related notes 1 to 14 for each Fund. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, pursuant to Paragraph 4.5.12 of the rules of the Collective Investment Schemes Sourcebook of the Financial Services Authority. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE AUTHORISED CORPORATE DIRECTOR (ACD) AND AUDITOR

As explained more fully in the ACD's responsibilities statement set out on page 5, the ACD is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the ACD; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the financial position of the Company and its Funds as at 30th September 2012 and of the net revenue and the net gains on the scheme property of the Company and its Funds for the year ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Independent Auditor's Report to the Shareholders of Morgan Stanley Funds (UK) (the "Company") (continued)

OPINION ON OTHER MATTERS PRESCRIBED BY THE RULES OF THE COLLECTIVE INVESTMENT SCHEMES SOURCEBOOK OF THE FINANCIAL SERVICES AUTHORITY

In our opinion:

- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice relating to Authorised Funds, the rules of the Collective Investment Schemes Sourcebook of the Financial Services Authority and the Instrument of Incorporation;
- the information given in the ACD's report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- there is nothing to indicate that proper accounting records have not been kept or that the financial statements are not in agreement with those records; and
- we have received all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Ernst & Young LLP

Statutory Auditor
Edinburgh
19th November 2012

Aggregated Financial Statements

Aggregated Statement of Total Return

FOR THE YEAR ENDED 30th SEPTEMBER 2012

	Notes	30th Sep 12 (£)	30th Sep 12 (£)	30th Sep 11 (£)*	30th Sep 11 (£)*
Income					
Net capital gains	4		45,973,958		18,859,778
Revenue	5	12,750,027		9,597,907	
Expenses	6	(4,133,528)		(2,842,695)	
Finance costs: Interest	8	(130)		(344)	
Net revenue before taxation		8,616,369		6,754,868	
Taxation	7	(855,006)		(568,984)	
Net revenue after taxation			7,761,363		6,185,884
Total return before distributions			53,735,321		25,045,662
Finance costs: Distributions	8		(7,761,391)		(6,185,887)
Change in net assets attributable to shareholders from investment activities			45,973,930		18,859,775

Aggregated Statement of Change in Net Assets Attributable to Shareholders

FOR THE YEAR ENDED 30th SEPTEMBER 2012

	Notes	30th Sep 12 (£)	30th Sep 12 (£)	30th Sep 11 (£)*	30th Sep 11 (£)*
Opening net assets attributable to shareholders			323,418,222		242,052,895
Amounts received on issue of shares		203,312,867		172,223,174	
Amounts paid on cancellation of shares		(61,080,249)		(115,424,134)	
			142,232,618		56,799,040
Dilution levy	1(g)		120,539		71,754
Change in net assets attributable to shareholders from investment activities			45,973,930		18,859,775
Retained distribution on accumulation shares			6,735,722		5,634,781
Rebate to ACD			–		(23)
Closing net assets attributable to shareholders			518,481,031		323,418,222

Aggregated Balance Sheet

AS AT 30th SEPTEMBER 2012

	Notes	30th Sep 12 (£)	30th Sep 12 (£)	30th Sep 11 (£)*	30th Sep 11 (£)*
Assets:					
Investment assets			501,656,106		312,284,019
Debtors	9	7,213,187		4,807,728	
Cash and bank balances		15,315,400		12,302,630	
Total other assets			22,528,587		17,110,358
Total assets			524,184,693		329,394,377
Liabilities:					
Investment liabilities			–		2,694
Creditors	10	4,440,449		5,505,446	
Bank overdrafts		–		–	
Distribution payable on income shares		1,263,213		468,015	
Total other liabilities			5,703,662		5,973,461
Total liabilities			5,703,662		5,976,155
Net assets attributable to shareholders			518,481,031		323,418,222

* Figures include one Fund that terminated. The UK Equity Alpha Fund, on 30th November 2011.

Aggregation – The aggregate financial statements represent the sum of the individual Funds within the umbrella Company. Further analysis of the distribution and the net asset position of each Fund can be found within the financial statements of the individual Fund.

The accompanying notes are an integral part of these Financial Statements.

Aggregated Financial Statements

Notes to the Financial Statements

FOR THE YEAR ENDED 30th SEPTEMBER 2012

1 ACCOUNTING POLICIES

a) Basis of accounting

The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association (IMA) in October 2010 ("SORP").

b) Revenue

Dividends on equities and preference stock are recognised when the securities are quoted ex-dividend. Interest receivable from bank deposits is accounted for on an accruals basis. Interest from debt securities is accounted for on an effective rate basis. Future cash flow on all debt securities are considered when calculating revenue on an effective yield basis and where purchase costs are considered to reflect incurred credit losses, such losses are taken into account so that interest is recognised at a reasonably expected commercial rate. Accrued interest purchased and sold on interest-bearing securities is excluded from the capital cost of these securities and dealt with as part of the revenue of the Company.

Special dividends are treated as either capital or revenue depending on the facts of each particular case. Amounts recognised as revenue will form part of the Company's distribution. Any tax treatment thereon will follow the accounting treatment of the principal amount.

c) Expenses

All expenses and fee waivers are recognised on an accrual basis. Expenses other than those relating to the purchase and sale of investments, are charged against revenue in the Statement of Total Return.

Stamp Duty Reserve Tax, where payable, is deducted as an expense from the capital of the Funds.

The ACD has chosen to waive part or all of its fee and/or cover other expenses of the Funds in order to reduce the impact that such fees may have on the performance of the Funds. This waiver is entirely voluntary and may be discontinued at any time without notice at the sole discretion of the ACD. The amount of fees waived during the period is shown in note 6.

d) Taxation

The charge for taxation is based on the net revenue for the year. UK dividend revenue is disclosed net of any related tax credit. Overseas dividends are disclosed gross of any foreign tax suffered, the tax element being separately disclosed in the taxation note.

Deferred taxation is provided on all timing differences that have originated and not reversed by the Balance Sheet date, other than those differences regarded as permanent. Any liability to deferred tax is provided at the rate at which it is anticipated the timing difference will reverse. Deferred tax assets and liabilities are not discounted to reflect the time value of money, a deferred tax asset is only recognised to the extent that it is expected to crystallise.

e) Valuation of investments

Market value is defined by the SORP as fair value, which generally is the bid value of each security. To comply with this, quoted investments have been valued at bid-market value at 12:00pm on the last business day of the year, net of any accrued interest, which is included in the Balance Sheet as revenue.

Unquoted, illiquid and suspended investments are valued by the ACD at a best assessment of fair value.

f) Exchange rates

All transactions in foreign currencies are translated into sterling at the exchange rates ruling on the date of such transaction. Foreign currency investments are translated into sterling at the exchange rate at 12:00pm on the last business day of the year. All other foreign currency assets and liabilities are translated into sterling at the close of business exchange rate. Gains or losses arising on the translation are reported on as part of the return for the year.

g) Dilution levy

In certain circumstances the ACD may charge a dilution levy on the sale or repurchase of shares, which is paid into the capital of the relevant Fund. The levy is intended to counter costs incurred in dealing in the underlying investments and of any spread between the buying and selling prices of such investments of the Fund (see page 42).

Aggregated Financial Statements

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30th SEPTEMBER 2012

2 DISTRIBUTION POLICY

The revenue from the Funds' investments accumulates during each accounting period. If revenue exceeds expenses during the period, the net revenue of the Fund is available for distribution at share class level to the shareholders in accordance with the regulations.

The Funds are not more than 60% invested in qualifying investments (as defined by S468L ICTA 1988) and where applicable will pay a dividend distribution with the exception of the Sterling Corporate Bond Fund which is more than 60% invested in qualifying investments and will pay an interest distribution.

The allocation of revenue and non class specific expenses is based upon the proportion of the Funds' assets attributable to each share class, on the day the revenue is earned or expense is suffered. Income equalisation and the annual management charge, are specific to each share class.

The ordinary element of stock dividends, received in lieu of cash dividends, is treated as revenue, and forms part of the distribution. In the case of an enhanced stock dividend, the value of the enhancement is treated as capital and does not form part of the distribution.

3 FINANCIAL INSTRUMENTS

In pursuing their investment objectives, the Funds hold a number of financial instruments. The Funds' financial instruments comprise securities and other investments, cash balances and bank overdrafts, short-term fixed deposits, debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement, amounts receivable for issue of shares and payables for cancellation of shares and debtors for accrued revenue.

Financial derivative instruments may be used by the Funds for efficient portfolio management, for example to hedge investment exposure or to adjust exposure in a cost effective manner. Derivative instruments held within the Funds will be accounted for in accordance with the SORP. Derivative transactions will be treated as either revenue or capital depending on the motives and circumstances on acquisition.

The main risks the Funds face from investing are: (a) foreign currency risk and currency exposure risk, (b) market price risk, (c) interest rate risk and cash flow risk, (d) liquidity risk and (e) credit risk and default risk.

These risks and the ACD's policies for managing them are summarised below and have been applied to all Funds throughout the year and the prior year.

a) Foreign currency risk and currency exposure

Some of the Funds' financial assets and liabilities are invested overseas. As a result, movements in exchange rates affect the sterling value of the portfolio, cash and investment purchases and sales.

The Funds may enter into derivative transactions in the form of forward foreign exchange contracts. Forward foreign exchange contracts are used to manage currency risk arising from holdings of overseas securities and are disclosed in the financial statements for the individual Funds.

b) Market price risk

The Funds' investment portfolios are exposed to market price fluctuations caused by factors other than interest rate or currency movement, which are monitored by the ACD in pursuance of the investment objective and policies as set out in the Fund Reviews preceding each set of financial statements for the individual Funds.

Adherence to investment guidelines, and to investment and borrowing powers set out in the Prospectus and the Regulations, mitigates the risk of excessive exposure to any particular type of security or issuer. Further information on the investment portfolios is set out in the Fund Reviews and Portfolio Statements.

c) Interest rate risk and cash flow risk

The revenue of the Funds investing in fixed and floating rate securities may be affected by changes in interest rates relevant to particular securities, or as a result of the ACD being unable to invest in securities with similar interest rate profiles on expiration of existing contracts or sale of securities. Interest rate movements in the future, or the expectation of such movements, may affect the value of fixed interest securities.

Aggregated Financial Statements

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30th SEPTEMBER 2012

c) Interest rate risk and cash flow risk (continued)

Where Funds hold fixed interest instruments, duration is used as the primary measure of interest rate risk, and is measured on a daily basis. The fund manager ensures that the Fund's weighted average duration is, where applicable, within a range that is in line with the Fund's investment objectives and is monitored on a daily basis by Morgan Stanley Investment Management ("MSIM")'s Compliance department. In addition, risk factors such as interest rate risk are measured monthly by the Global Risk and Analysis team ("GRA"). Specifically, the risk management team utilises the Citibank Yieldbook risk platform, a fixed income analytics toolkit that has security modelling capabilities. GRA also uses Yieldbook to produce Tracking Error Volatility, which shows the overall interaction of interest rate risk with other modelled risks as they apply to the Fund. Analytics are supplemented with position analysis to monitor relative weights and durations of the Fund's portfolio relative to the benchmark.

Interest receivable on bank deposits or payable on bank overdraft positions will be affected by fluctuations in interest rates. Details of the interest rate risk exposure are provided in Note 1 to each of the individual Funds financial statements. Cash balances are actively managed to ensure that there is enough liquidity on the accounts to cover any expenses or liabilities, while ensuring that no excess cash sits on the account. Any cash is placed on overnight/weekly deposit with the custodian to earn interest.

The Funds' net cash holdings are held in several floating rate deposit accounts with interest determined by rates supplied by the Depositary. Details of financial assets and liabilities are provided in Note 1 to each of the individual Funds' accounts.

Non-interest cash flows (ie. dividend income) to the equity Funds may fluctuate depending on the particular decisions made by each issuer.

d) Liquidity risk

The Funds may only invest in securities that are transferable, liquid and have a value that can be accurately determined on each valuation day. Some securities purchased may subsequently be deemed to be illiquid or have stale prices. If such instances arise, which are

infrequent, the securities are reviewed by the pricing team within MSIM Operations, at least once every month and fair valued as appropriate.

All of the Funds' financial assets as at 30th September 2012 are considered to be readily realisable in accordance with the market practices of the exchange on which they are traded. In general, cash is managed to ensure the Funds can meet their liabilities. Where investments cannot be realised in time to meet any potential liability, the Funds may borrow up to 10% of their net assets value to ensure settlement.

All of the Funds' financial liabilities are payable on demand or in less than one year.

e) Credit risk and default risk

Certain transactions in securities that the Funds enter into expose them to the risk that the counterparty will not deliver the investment for a purchase, or cash for a sale after the Fund has fulfilled its responsibilities. The Funds only buy and sell investments through brokers which have been approved by the ACD as acceptable counterparties.

The Sterling Corporate Bond Fund invests in fixed and floating rate securities. The value of these securities would be adversely affected if the issuer were unable to pay the contractual interest or principal.

MSIM's methods of controlling credit risk include appropriate diversification of each Fund's portfolio and limits on maximum exposure per issuer that comply with Morgan Stanley's investment restrictions, which in some cases are more restrictive than the UCITS requirement.

Exposures are monitored to ensure they comply with the Funds' investment restrictions and, where applicable, investment objectives. MSIM's Compliance and Operations departments review internal limits, report all breaches and escalate non-compliance to all relevant areas as appropriate. In addition, the Risk Management department maintains oversight of credit and default risk.

Derivatives

During the year, the Company entered into futures contracts for efficient management purposes. Due to the use of derivatives the percentage movements in the value of the Company may be different from percentage movements in the market.

Aggregated Financial Statements

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30th SEPTEMBER 2012

4 NET CAPITAL GAINS

	30th Sep 12 (£)	30th Sep 11 (£)
Gains on non-derivative securities	46,044,693	19,011,345
Gains on derivative securities	12,793	5,524
Currency (losses)	(56,318)	(117,824)
Transaction charges	(27,210)	(39,267)
Net capital gains	45,973,958	18,859,778

5 REVENUE

	30th Sep 12 (£)	30th Sep 11 (£)
Overseas dividends	7,504,832	4,963,773
UK dividends	4,851,925	3,640,314
Interest on debt securities	360,778	965,743
Bank interest	32,492	28,077
Total revenue	12,750,027	9,597,907

6 EXPENSES

	30th Sep 12 (£)	30th Sep 11 (£)
Payable to the ACD, associates of the ACD, and agents of either of them:		
Management charge	3,099,028	2,133,864
Administration charge	1,006,767	715,572
	4,105,795	2,849,436
Payable to the Depositary, associates of the Depositary, and agents of either of them:		
Depositary's fees	101,417	105,987
Safe custody fees	76,442	77,682
	177,859	183,669
Other expenses:		
Financial Services Authority fees	1,662	1,260
Audit fee*	27,000	27,000
Professional fees	52,121	23,000
Printing & production costs	49,833	20,828
	130,616	72,088
Expenses	4,414,270	3,105,193
Less ACD expense waived	(280,742)	(262,498)
Total expenses	4,133,528	2,842,695

* The audit fee for the period, excluding VAT, was £22,500 (2011: £22,500).

7 TAXATION

a) Analysis of charge in the year:

	30th Sep 12 (£)	30th Sep 11 (£)
Overseas tax	855,006	568,853
Prior year overseas tax reclaims adjustments	–	131
Total current tax for the year	855,006	568,984

b) Factors affecting current tax charge for the year:

The tax assessed for the year is lower (2011: lower) than the standard rate of corporation tax in the UK for an open ended investment company (20%).

The differences are explained below:

	30th Sep 12 (£)	30th Sep 11 (£)
Net revenue before taxation	8,616,369	6,754,868
Corporation tax at 20% (2011: 20%)	1,723,273	1,350,973
Effects of:		
Revenue not subject to corporation tax	(2,475,724)	(1,717,027)
Tax deductible interest distributions	(63,009)	(170,176)
Movement in excess expenses	815,460	536,230
Overseas tax	855,006	568,853
Prior year overseas tax reclaims adjustments	–	131
Total current tax for the year	855,006	568,984

Details of any deferred tax asset are set out in the taxation note of each individual Fund.

Authorised investment companies with variable capital are exempt from tax on capital gains. Therefore any capital return is not included in the above reconciliation.

Aggregated Financial Statements

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30th SEPTEMBER 2012

8 FINANCE COSTS

Distributions and Interest

The distributions take account of equalisation received on the issue of shares and deducted on cancellation of shares, and comprise:

	30th Sep 12 (£)	30th Sep 11 (£)
Interim	5,383,531	–
Final	3,061,670	6,102,796
Add: Amounts deducted on cancellation of shares	234,207	1,041,867
Deduct: Amounts received on issue of shares	(981,026)	(1,128,952)
Income tax withheld at source	63,009	170,176
Net distribution for the year	7,761,391	6,185,887
Interest	130	344
Total finance costs	7,761,521	6,186,231
Distributions are represented by:		
	30th Sep 12 (£)	30th Sep 11 (£)
Net revenue after taxation	7,761,363	6,185,884
Movement on revenue account	28	3
Net distribution for the year	7,761,391	6,185,887

Details of the distribution per share are set out in the distribution tables of each individual Fund.

9 DEBTORS

	30th Sep 12 (£)	30th Sep 11 (£)
Accrued revenue	1,201,281	829,325
Amounts receivable for issue of shares	3,196,199	997,946
Sales awaiting settlements	2,254,879	2,697,739
Overseas tax recoverable	519,989	257,988
Reimbursement of expenses receivable from ACD	27,206	24,730
Prepaid expenses	13,633	–
	7,213,187	4,807,728

10 CREDITORS

	30th Sep 12 (£)	30th Sep 11 (£)
Purchases awaiting settlement	2,556,896	2,064,212
Accrued expenses	182,781	171,489
Rebate payable to ACD	–	7,651
Amounts payable to ACD	307,059	202,809
Income tax payable	63,027	170,194
Amount payable for cancellation of shares	1,330,686	2,889,091
	4,440,449	5,505,446

11 RELATED PARTY TRANSACTIONS

Morgan Stanley Investment Management (ACD) Limited, as Authorised Corporate Director (ACD), is a related party, and acts as a principal in respect of all transactions of shares in the Company. The aggregate monies received through issues and paid on redemptions are disclosed in the Aggregated Statement of Change in Net Assets Attributable to Shareholders. Any amounts due to or from Morgan Stanley Investment Management (ACD) Limited at the end of the accounting year are disclosed in notes 9 and 10.

Amounts payable to Morgan Stanley Investment Management (ACD) Limited in respect of fund administration and management services are disclosed in note 6 and amounts due at the end of the year in note 10.

Member companies of the Morgan Stanley Group, of which Morgan Stanley Investment Management (ACD) Limited is a wholly owned subsidiary, hold shares in various Funds of the Company, details of which are disclosed in note 9 of each Fund's financial statements.

12 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments and contingent liabilities are disclosed in note 10 of each Fund's financial statements.

13 SHAREHOLDERS' FUNDS

Each Fund currently has two share classes: Class A and Class I. Each share class is subject to a different management charge. Consequently the level of net revenue attributable to each share class will differ. Generally revenue and expenses are allocated when earned or incurred in the proportion of the net assets value of each share class to the total net asset value of the Fund at that time, tax is then calculated at class level based on excess taxable revenue over expenses incurred.

The annual management charge for each Fund is detailed in the Prospectus and the notes to the financial statements of each Fund.

For each Fund, the net asset value, the net asset value per share and the number of shares are given in the comparative table in the individual Fund Reviews. The distribution per share class is given in the Distribution Tables of each individual Fund.

In the event of a Fund wind-up, all of the Share classes of that Fund will have the same rights.

Europe (ex UK) Equity Alpha Fund

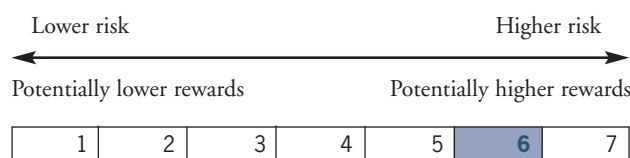
Fund Review

INVESTMENT OBJECTIVE

The objective of the Fund is to seek long-term capital appreciation, through investment primarily in a concentrated portfolio of equity securities issued in Europe, excluding the United Kingdom. Investments will be sought in equity securities which the Investment Manager believes to have the highest potential for long-term capital appreciation based primarily on fundamental market factors and stock specific research.

The Fund aims to outperform the FTSE World Index Series Europe (ex UK) by 1-2 per cent per annum over a full market cycle of three to five years.

RISK AND REWARD PROFILE



The risk and reward category shown is based on historic data.

- Historic figures are only a guide and may not be a reliable indicator of what may happen in the future.
- As such this category may change in the future.
- The higher the category, the greater the potential reward, but also the greater the risk of losing the investment. Category 1 does not indicate a risk free investment.
- The Fund is in this category because it invests in company shares, which tend to be more volatile than fixed income securities.

This rating does not take into account other risk factors which should be considered before investing, these include:

- Your investment can go down as well as up. You may not get back the amount you have invested.
- The Fund may be impacted by movements in the exchange rates between the Fund's currency and the currencies of the fund's investments.

PERFORMANCE

	Since inception 31/03/00 % change cumulative	1 year % change cumulative	6 months % change cumulative
FTSE World Index Series Europe (ex UK)	34.43	12.57	(0.79)
Europe (ex UK) Equity Alpha Fund A Acc*	8.00	12.07	0.19
Europe (ex UK) Equity Alpha Fund I Acc*	18.98	12.91	0.56

Source Index: Factset as at 30th September 2012 on a bid-to-bid price basis with net income reinvested.

Source Fund: State Street.

* On 30th January 2003, shareholders approved the reclassification of A and I income shares to A and I accumulation shares.

Past performance is no guarantee of future returns. In particular, any returns illustrated here will not necessarily continue at the levels shown.

NET ASSET VALUES

Date	Net asset value of share class (£)	Shares in issue	Net asset value per share (£)
Share Class A – Accumulation*			
30.09.12	212,780	22,048	9.65
30.09.11	205,911	23,855	8.63
30.09.10	236,677	24,002	9.86
Share Class I – Accumulation*			
30.09.12	10,270,555	965,908	10.63
30.09.11	9,761,499	1,034,218	9.44
30.09.10	12,734,017	1,190,043	10.70

* Valued at bid basis.

SHARE PRICE AND INCOME RECORD

Calendar Year	Highest share price (£)	Lowest share price (£)	Net income per share (p)
Share Class A – Accumulation*			
2012	10.02 ⁽¹⁾	8.36 ⁽¹⁾	14.3196
2011	11.40	8.02	15.0650
2010	10.75	8.80	11.3397
2009	10.38	6.62	16.0557
2008	11.50	7.00	14.0616
2007	11.44	9.91	5.6275
Share Class I – Accumulation*			
2012	11.04 ⁽¹⁾	9.19 ⁽¹⁾	23.3388
2011	12.43	8.76	25.0410
2010	11.69	9.53	20.3441
2009	11.17	7.09	22.7903
2008	12.23	7.48	23.0411
2007	12.15	10.47	17.1214

* Valued at mid basis.

⁽¹⁾ 1st January to 30th September 2012.

ONGOING CHARGES FIGURE ("OCF")

	For the year ended 30th Sep 12
'A' Class	1.75%
'I' Class	1.00%

Comparative figures are not currently available, as this is the first period of reporting the OCF.

Europe (ex UK) Equity Alpha Fund

Fund Review (continued)

PERFORMANCE REVIEW

For the twelve-month period ending 30th September 2012, the Fund's I share class outperformed the benchmark FTSE World Index Series Europe ex-UK Index, returning 12.91% (net of fees) versus 12.57% for the index.

Positive contributors to the performance came from stock selection in financial services and insurance along with underweight allocation to utilities. In addition, our overweight allocation to Industrial Goods & Services along with both our underweight allocation and stock selection to Banks positively contributed to the overall performance. In contrast, detractors from performance included stock selection in Automobiles & Parts, Health Care, Oil & Gas and Retail.

MARKET REVIEW

Like their counterparts in other parts of the world, the continental European markets performed well over the year as investors' appetite for risk improved substantially. Investors looked favourably on the various aggressive and unorthodox moves undertaken by major central banks. Arguably, the most important initiative is the European Central Bank's commitment in early September 2012 to unlimited quantities of Outright Market Transactions (OMT) – large scale purchases of the bonds of financially troubled euro area governments (provided that those governments meet certain conditions). The implication of OMT is that a disorderly default by a euro area government is very much less likely than would otherwise have been the case.

In the meantime, the continental European economies have remained in or near recession, at a time of low inflationary pressures.

PORTFOLIO ACTIVITY

We made a number of changes to the portfolio. We reduced our weight in industrial and oil sectors following strong recent performance. In addition, we reduced our weight in electric consumer discretionary as the outlook is still poor for the European consumer. In the meanwhile, we increased our exposure to emerging markets due to the constant trade growth between Europe and Asia, which will benefit European exporters along with Emerging Markets companies.

STRATEGY & OUTLOOK

We continue to believe that careful stock selection can be an important source of investment performance. We apply a disciplined and proven investment process to identify individual stocks that we feel are attractively valued relative to their future prospects. Typically, companies that we focus on are characterised by strong business models, financial strength and management teams of demonstrable competence.

In terms of sectors, the fund is currently overweight consumer goods, industrials and consumer services. We remain underweight utilities, technology, financials, basic materials and telecommunications.

All information is provided for informational purposes only and should not be deemed as a recommendation to purchase or sell the securities mentioned.

Europe (ex UK) Equity Alpha Fund

Portfolio Statement

AS AT 30th SEPTEMBER 2012

	Holdings	Investments	Market Value (£)	% of net asset value 30th Sep 12	% of net asset value 30th Sep 11
Belgium – 1.96%	6,304	Umicore	205,684	1.96	
			205,684	1.96	2.17
Finland – 2.64%	6,415	Kone	277,026	2.64	
			277,026	2.64	2.64
France – 16.54%	7,670	Accor	160,560	1.53	
	32,804	AXA	307,674	2.94	
	12,051	BNP Paribas	361,113	3.45	
	13,311	Faurecia	137,278	1.31	
	3,540	Pernod-Ricard	250,274	2.39	
	7,978	Schneider Electric	302,046	2.88	
	12,060	Société Générale	214,192	2.04	
			1,733,137	16.54	16.54
Germany – 25.51%	4,104	Allianz	302,237	2.88	
	5,849	Bayer	316,733	3.02	
	9,704	Daimler	293,379	2.80	
	3,379	Fresenius	246,309	2.35	
	9,170	Hamburger Hafen Logistik	146,431	1.40	
	4,740	Henkel	234,923	2.24	
	2,899	Man Group	165,941	1.58	
	3,019	Muenchener Rueckversicherungs	294,363	2.81	
	7,004	Siemens	434,739	4.15	
	2,112	Volkswagen	239,307	2.28	
			2,674,362	25.51	23.81
Ireland – 1.91%	16,777	CRH (EU listed)	200,409	1.91	
			200,409	1.91	1.97
Italy – 6.90%	34,262	Ansaldo STS	174,349	1.66	
	27,896	Azimut	198,625	1.89	
	25,459	ENI	350,962	3.35	
			723,936	6.90	7.00
Luxembourg – 5.02%	17,629	Arcelormittal	158,169	1.51	
	2,250	Millicom International Cellular	129,829	1.24	
	14,166	SES	237,574	2.27	
			525,572	5.02	3.91
The Netherlands – 11.32%	22,256	DE Master Blenders	168,060	1.60	
	30,286	Koninklijke KPN	238,850	2.28	
	27,233	Reed Elsevier	226,837	2.16	
	10,508	Royal Dutch Shell 'A' Shares	225,799	2.15	
	14,776	Unilever	328,539	3.13	
			1,188,085	11.32	9.06
Portugal – 2.07%	21,892	Galp Energia SGPS	217,386	2.07	
			217,386	2.07	2.67
Spain – 7.53%	17,380	Amadeus	251,243	2.40	
	62,625	BBVA	307,632	2.94	
	27,324	Telefonica	229,340	2.19	
			788,215	7.53	8.86

Europe (ex UK) Equity Alpha Fund

Portfolio Statement (continued)

AS AT 30th SEPTEMBER 2012

	Holdings	Investments	Market Value (£)	% of net asset value 30th Sep 12	% of net asset value 30th Sep 11
Switzerland – 16.64%					
	17,292	Nestlé	680,706	6.50	
	14,461	Novartis	549,699	5.24	
	4,403	Roche	513,149	4.90	
			1,743,554	16.64	18.69
		Portfolio of investments	10,277,366	98.04	97.32
		Net other assets	205,969	1.96	2.68
		Net assets	10,483,335	100.00	100.00

All holdings are ordinary shares unless otherwise stated.

PORTFOLIO TURNOVER RATE ("PTR")

	For the year ended 30th Sep 12	For the year ended 30th Sep 11
	24.86%	24.53%

The portfolio turnover rate (PTR) of the Fund is the ratio of the Fund's transactions to its average net assets for twelve months.

Europe (ex UK) Equity Alpha Fund

Statement of Total Return

FOR THE YEAR ENDED 30th SEPTEMBER 2012

	Notes	30th Sep 12 (£)	30th Sep 12 (£)	30th Sep 11 (£)	30th Sep 11 (£)
Income					
Net capital gains/(losses)	2		1,013,142		(1,515,484)
Revenue	3	418,177		461,996	
Expenses	4	(104,667)		(128,061)	
Net revenue before taxation		313,510		333,935	
Taxation	5	(74,658)		(59,708)	
Net revenue after taxation			238,852		274,227
Total return before distributions			1,251,994		(1,241,257)
Finance costs: Distributions	6		(238,871)		(274,227)
Change in net assets attributable to shareholders from investment activities			1,013,123		(1,515,484)

Statement of Change in Net Assets Attributable to Shareholders

FOR THE YEAR ENDED 30th SEPTEMBER 2012

	30th Sep 12 (£)	30th Sep 12 (£)	30th Sep 11 (£)	30th Sep 11 (£)
Opening net assets attributable to shareholders		9,967,410		12,970,694
Amounts received on issue of shares	628,954		19,571	
Amounts paid on cancellation of shares	(1,360,938)		(1,769,943)	
		(731,984)		(1,750,372)
Dilution levy		3,754		–
Change in net assets attributable to shareholders from investment activities		1,013,123		(1,515,484)
Retained distribution on accumulation shares		231,032		262,572
Closing net assets attributable to shareholders		10,483,335		9,967,410

Balance Sheet

AS AT 30th SEPTEMBER 2012

	Notes	30th Sep 12 (£)	30th Sep 12 (£)	30th Sep 11 (£)	30th Sep 11 (£)
Assets:					
Investment assets			10,277,366		9,700,768
Debtors	7	68,451		61,644	
Cash and bank balances		168,469		237,455	
Total other assets			236,920		299,099
Total assets			10,514,286		9,999,867
Liabilities					
Creditors	8	30,951		32,457	
Total liabilities			30,951		32,457
Net assets attributable to shareholders			10,483,335		9,967,410

The accompanying notes are an integral part of these Financial Statements.

Europe (ex UK) Equity Alpha Fund

Distribution Tables

FOR THE YEAR ENDED 30th SEPTEMBER 2012

INTERIM

Group 1 – shares purchased prior to 1st October 2011

Group 2 – shares purchased between 1st October 2011 and 31st March 2012

	Net Income	Equalisation	Distribution paid 31st May 12	Distribution paid 31st May 11
Share Class A – Accumulation				
Group 1	2.4883p	–	2.4883p	–
Group 2	2.4883p	–	2.4883p	–
Share Class I – Accumulation				
Group 1	6.5122p	–	6.5122p	–
Group 2	4.9141p	1.5981p	6.5122p	–

FINAL

Group 1 – shares purchased prior to 1st April 2012

Group 2 – shares purchased between 1st April 2012 and 30th September 2012

	Net Income	Equalisation	Distribution payable 30th Nov 12	Distribution paid 30th Nov 11
Share Class A – Accumulation				
Group 1	11.8313p	–	11.8313p	15.0650p
Group 2	11.8313p	–	11.8313p	15.0650p
Share Class I – Accumulation				
Group 1	16.8266p	–	16.8266p	25.0410p
Group 2	0.0000p	16.8266p	16.8266p	25.0410p

EQUALISATION

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It is the average amount of income included in the purchase price of all Group 2 shares and is refunded to holders of these shares as a return of capital. Being capital, it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes.

Europe (ex UK) Equity Alpha Fund

Notes to the Financial Statements

FOR THE YEAR ENDED 30th SEPTEMBER 2012

1 DERIVATIVES AND FINANCIAL INSTRUMENTS

Please refer to note 3 of the aggregated financial statements for a detailed description of these risks. There were no further specific risks for this Fund.

The Fund's currency exposure as at 30th September 2012 was:

Currency	Net foreign currency assets 30th Sep 12 (£)		Total £
	Monetary Exposure £	Non-Monetary Exposure £	
Danish Krone	2	–	2
Euro	31,750	8,533,812	8,565,562
Norwegian Krone	22	–	22
Swedish Krona	–	–	–
Swiss Franc	27,943	1,743,554	1,771,497
US Dollar	242	–	242
Total	59,959	10,277,366	10,337,325

Currency	Net foreign currency assets 30th Sep 11 (£)		Total £
	Monetary Exposure £	Non-Monetary Exposure £	
Danish Krone	2	–	2
Euro	102,630	7,837,922	7,940,552
Norwegian Krone	22	–	22
Swedish Krona	2,334	–	2,334
Swiss Franc	15,628	1,862,846	1,878,474
US Dollar	1,278	–	1,278
Total	121,894	9,700,768	9,822,662

The interest rate risk profile of the Fund's financial assets and liabilities at 30th September 2012 was:

Currency	Floating Rate financial assets £	Financial assets not carrying interest £	Total £
2012			
Danish Krone	2	–	2
Euro	9,353	8,556,208	8,565,561
Norwegian Krone	22	–	22
Pound Sterling	158,851	18,111	176,962
Swedish Krona	–	–	–
Swiss Franc	–	1,771,497	1,771,497
US Dollar	242	–	242
Total	168,470	10,345,816	10,514,286
2011			
Danish Krone	2	–	2
Euro	60,317	7,880,235	7,940,552
Norwegian Krone	22	–	22
Pound Sterling	173,502	3,703	177,205
Swedish Krona	2,334	–	2,334
Swiss Franc	–	1,878,474	1,878,474
US Dollar	1,278	–	1,278
Total	237,455	9,762,412	9,999,867

Currency	Floating Rate financial liabilities £	Financial liabilities not carrying interest £	Total £
2012			
Pound Sterling	–	30,951	30,951
Total	–	30,951	30,951
2011			
Pound Sterling	–	32,457	32,457
Total	–	32,457	32,457

The Fund's net cash holdings are held in floating rate deposit accounts with interest determined by rates supplied, based on LIBOR or its International equivalent.

2 NET CAPITAL GAINS/(LOSSES)

	30th Sep 12 (£)	30th Sep 11 (£)
Gains/(losses) on non-derivative securities	1,026,032	(1,505,806)
Currency losses	(7,363)	(3,575)
Transaction charges	(5,527)	(6,103)
Net capital gains/(losses)	1,013,142	(1,515,484)

3 REVENUE

	30th Sep 12 (£)	30th Sep 11 (£)
Overseas dividends	417,568	461,276
Bank interest	609	720
Total revenue	418,177	461,996

4 EXPENSES

	30th Sep 12 (£)	30th Sep 11 (£)
Payable to the ACD, associates of the ACD, and agents of either of them:		
Management charge	78,369	96,471
Administration charge	25,621	31,530
	103,990	128,001

	30th Sep 12 (£)	30th Sep 11 (£)
Payable to the Depositary, associates of the Depositary, and agents of either of them:		
Depositary's fees	19,440	21,488
Safe custody fees	12,960	14,400
	32,400	35,888

	30th Sep 12 (£)	30th Sep 11 (£)
Other expenses:		
Financial Services Authority fee	554	315
Audit fee*	9,000	9,000
Professional fees	19,523	6,000
Printing & production costs	10,741	5,107
	39,818	20,422

	30th Sep 12 (£)	30th Sep 11 (£)
Expenses	176,208	184,311
Less ACD reimbursement to revenue	(71,541)	(56,250)
Total expenses	104,667	128,061

* The audit fee for the period, excluding VAT, was £7,500 (2011: £7,500).

Europe (ex UK) Equity Alpha Fund

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30th SEPTEMBER 2012

5 TAXATION

a) Analysis of charge in the year:

	30th Sep 12 (£)	30th Sep 11 (£)
Overseas tax	74,658	59,577
Overseas tax prior year tax reclaims adjustments	–	131
Total current tax for the year	74,658	59,708

(b) Factors affecting current tax charge for the year:

The tax assessed for the period is higher (2011: lower) than the standard rate of corporation tax in the UK for an open ended investment company (20%).

The differences are explained below:

	30th Sep 12 (£)	30th Sep 11 (£)
Net revenue before taxation	313,510	333,935
Corporation tax at 20% (2011: 20%)	62,702	66,787
Effects of:		
Revenue not subject to corporation tax	(83,156)	(91,999)
Movement in excess expenses	20,454	25,212
Overseas tax	74,658	59,577
Prior year overseas tax reclaims adjustments	–	131
Total current tax for the year	74,658	59,708

c) Provision for deferred tax

At 30th September 2012 the Fund had surplus management expenses of £270,135 (30th September 2011: £167,865). It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these expenses and therefore a deferred tax asset of £54,027 (30th September 2011: £33,573) has not been recognised.

6 FINANCE COSTS

Distributions and interest

The distributions take account of equalisation received on the issue of shares and amounts deducted on the cancellation of shares, and comprise:

	30th Sep 12 (£)	30th Sep 11 (£)
Interim	65,874	–
Final	165,138	262,572
Add: equalisation deducted on cancellation of shares	9,663	11,675
Less: equalisation received on issue of shares	(1,804)	(20)
Net distribution for the year	238,871	274,227
Interest	–	–
Total finance costs	238,871	274,227

Distributions are represented by:

	30th Sep 12 (£)	30th Sep 11 (£)
Net revenue after taxation	238,852	274,227
Income carried forward	19	–
Net distribution for the year	238,871	274,227

Details of the distribution per share are set out in the distribution tables on page 20.

7 DEBTORS

	30th Sep 12 (£)	30th Sep 11 (£)
Accrued revenue	2,478	2,654
Overseas tax recoverable	47,862	55,315
Reimbursement of expenses receivable from ACD	10,850	3,675
Prepaid expenses	7,261	–
	68,451	61,644

8 CREDITORS

	30th Sep 12 (£)	30th Sep 11 (£)
Accrued expenses	24,803	26,195
Amounts payable to ACD	6,148	6,262
	30,951	32,457

Europe (ex UK) Equity Alpha Fund

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30th SEPTEMBER 2012

9 RELATED PARTY TRANSACTIONS

Morgan Stanley Investment Management (ACD) Limited, as Authorised Corporate Director (ACD), is a related party, and acts as a principal in respect of all transactions of shares in the Company. The aggregate monies received through issues and paid on redemptions are disclosed in the Statement of Change in Net Assets Attributable to Shareholders. Any amounts due to or from Morgan Stanley Investment Management (ACD) Limited at the end of the accounting year are disclosed in notes 7 and 8.

Amounts payable to Morgan Stanley Investment Management (ACD) Limited in respect of fund administration and management services are disclosed in note 4, and amounts due at the end of the year in note 8.

One shareholder has a material interest of 97% in this Fund and so is deemed to be a related party.

10 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Fund has no outstanding capital commitments or contingent liabilities at the year end date (30th September 2011: Nil).

11 DILUTION LEVY

Please refer to note 1(g) of the aggregated accounts for a detailed description of dilution levy.

12 SHAREHOLDERS' FUNDS

The annual management charges for the Fund are as follows:

Class A	1.50%
Class I	0.75%

The net asset value, the net asset value per share and the number of shares are set out in the comparative Net Asset Values Table on page 15. The distribution per share class is given in the Distribution Table on page 20.

13 PORTFOLIO TRANSACTION COSTS

	30th Sep 12 (£)	30th Sep 11 (£)
Analysis of total purchase costs		
Purchases in the year		
before transaction costs	2,049,345	1,796,806
Commissions	1,829	1,422
Fees	386	442
Total purchase costs	2,215	1,864
Gross purchase total	2,051,560	1,798,670
Analysis of total sale costs		
Gross sales		
before transaction costs	2,503,256	3,089,841
Commissions	(2,264)	(3,401)
Fees	(1)	(8)
Total sale costs	(2,265)	(3,409)
Total sales net of transaction costs	2,500,991	3,086,432

14 POST BALANCE SHEET EVENTS

After the year end, public market fluctuations have resulted in the NAV of the A and I Accumulation share classes dropping 0.31% and 0.19% respectively from £9.68 and £10.66 at 30th September 2012 to £9.65 and £10.64 at 9th November 2012.

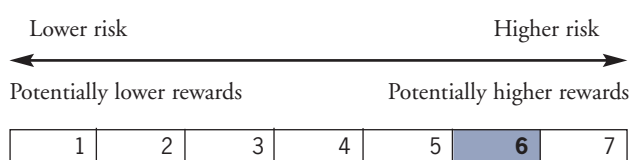
Global Brands Fund

Fund Review

INVESTMENT OBJECTIVE

The objective of the Fund is to provide long-term capital appreciation through investment primarily in equity securities issued worldwide.

RISK AND REWARD PROFILE



The risk and reward category shown is based on historic data.

- Historic figures are only a guide and may not be a reliable indicator of what may happen in the future.
- As such this category may change in the future.
- The higher the category, the greater the potential reward, but also the greater the risk of losing the investment. Category 1 does not indicate a risk free investment.
- The fund is in this category because it invests in company shares, which tend to be more volatile than fixed income securities.

This rating does not take into account other risk factors which should be considered before investing, these include:

- Your investment can go down as well as up. You may not get back the amount you have invested.
- The fund may be impacted by movements in the exchange rates between the fund's currency and the currencies of the fund's investments.

PERFORMANCE

	Since inception 03/02/03 % change cumulative	1 year % change cumulative	6 months % change cumulative
MSCI World (Net) Index	108.78	17.30	0.23
Global Brands Fund A Acc	186.53	13.81	1.39
Global Brands Fund A Inc*	12.73	13.79	1.38
Global Brands Fund I Acc	207.84	14.68	1.76
Global Brands Fund I Inc†	21.90	14.45	1.75

Source Index: Factset as at 30th September 2012 on a bid-to-bid price basis with net income reinvested.

Source Fund: State Street.

† Launched 25th February 2011.

* Launched 6th May 2011.

Past performance is no guarantee of future returns. In particular, any returns illustrated here will not necessarily continue at the levels shown.

NET ASSET VALUES

Date	Net asset value of share class (£)	Shares in issue	Net asset value per share (£)
Share Class A – Accumulation*			
30.09.12	15,542,977	434,166	35.80
30.09.11	6,979,271	221,949	31.45
30.09.10	3,528,833	124,966	28.24
Share Class A – Income*⁽¹⁾			
30.09.12	950,187	85,416	11.12
30.09.11	458,120	46,453	9.86
Share Class I – Accumulation*			
30.09.12	368,172,569	9,571,595	38.47
30.09.11	272,959,237	8,138,998	33.54
30.09.10	183,673,089	6,144,834	29.89
Share Class I – Income*⁽²⁾			
30.09.12	115,602,952	9,779,917	11.82
30.09.11	26,987,231	2,571,640	10.49

* Valued at bid basis.

⁽¹⁾ Launched 6th May 2011.

⁽²⁾ Launched 25th February 2011.

SHARE PRICE AND INCOME RECORD

Calendar Year	Highest share price (£)	Lowest share price (£)	Net income per share (p)
Share Class A – Accumulation*			
2012	36.32 ⁽¹⁾	32.53 ⁽¹⁾	38.7703
2011	33.44	28.80	37.1258
2010	30.52	25.42	32.8482
2009	26.17	18.17	29.2047
2008	23.18	17.76	28.2072
2007	23.55	21.38	22.3037
Share Class A – Income*			
2012	11.36 ⁽¹⁾	10.20 ⁽¹⁾	10.5296
2011	10.52 ⁽²⁾	9.35 ⁽²⁾	3.8951
Share Class I – Accumulation*			
2012	38.98 ⁽¹⁾	34.78 ⁽¹⁾	68.3332
2011	35.59	30.59	62.9912
2010	32.36	26.75	54.4745
2009	27.52	19.00	47.4687
2008	24.02	18.52	41.8638
2007	24.30	22.10	35.3914
Share Class I – Income*			
2012	12.11 ⁽¹⁾	10.88 ⁽¹⁾	21.3223
2011	11.30 ⁽³⁾	9.71 ⁽³⁾	15.1404

* Valued at mid basis.

⁽¹⁾ 1st January to 30th September 2012.

⁽²⁾ 6th May to 31st December 2011.

⁽³⁾ 25th February to 31st December 2011.

ONGOING CHARGES FIGURE ("OCF")

	For the year ended 30th Sep 12
'A' Class	1.75%
'I' Class	1.00%

Comparative figures are not currently available, as this is the first period of reporting the OCF.

Global Brands Fund

Fund Review (continued)

PERFORMANCE

For the twelve-month period ending 30th September 2012, the Fund's I Accumulation class shares underperformed the benchmark MSCI World (Net) Index, returning 14.68% (net of fees) versus 17.30% for the index (in GBP). Long-term performance remains very strong in absolute and relative terms, and since inception the Fund returned 12.35% outperforming its benchmark by 4.43% (annualised).

The relative underperformance for the year ending 30th September 2012 was mainly due to our stock selection and overweight in Consumer Staples and stock selection and underweight in Financials. Our zero weight in Energy and Consumer Discretionary, stock selection in Materials and underweight in Health Care also detracted from relative performance for the period. This was partly offset by our stock selection and allocation to Information Technology, stock selection in Industrials and zero weight in Utilities and Telecommunication Services.

MARKET REVIEW

During the year, global equities benefited from the general improvement in investors' perception of risk. In particular, investors were reassured by the aggressive monetary policy initiatives that were announced by major central banks.

PORTFOLIO ACTIVITY

Over the year we initiated positions in Information Technology, Consumer Staples and Health Care and sold out of relatively lower quality holdings in Staples and Health Care. We added to select consumer staples, Financials and Technology names and made some reductions in our Materials holdings.

STRATEGY & OUTLOOK

At the portfolio level, we continue to believe that developments in the real economy – and hence in corporate earnings – will ultimately trump the various initiatives undertaken by major central banks to boost the availability of liquidity to the global economy. We continue to seek attractively valued high quality franchises, built on dominant and durable intangible assets, which possess pricing power and low capital intensity. This involves investing in well-run companies that capitalise on their intangible assets to compound shareholder wealth at a superior rate over the long-term. The end result is a concentrated portfolio aimed at earning attractive absolute returns with less volatility than the broader markets.

All information is provided for informational purposes only and should not be deemed as a recommendation to purchase or sell the securities mentioned.

Global Brands Fund

Portfolio Statement

AS AT 30th SEPTEMBER 2012

	Holdings	Investments	Market Value (£)	% of net asset value 30th Sep 12	% of net asset value 30th Sep 11
China – 0.00%			–	–	1.54
Finland – 2.86%	331,187	Kone	14,302,002	2.86	
			14,302,002	2.86	2.12
France – 6.23%	435,050	Legrand	10,254,840	2.05	
	385,766	Sanofi	20,920,679	4.18	
			31,175,519	6.23	2.29
Germany – 3.46%	391,636	SAP	17,312,582	3.46	
			17,312,582	3.46	0.00
Ireland – 1.76%	845,500	Experian	8,784,745	1.76	
			8,784,745	1.76	1.01
Italy – 1.43%	1,455,127	Davide Campari-Milano	7,154,970	1.43	
			7,154,970	1.43	2.22
The Netherlands – 2.02%	1,338,255	DE Master Blenders	10,105,465	2.02	
			10,105,465	2.02	0.00
Sweden – 3.73%	735,740	Swedish Match	18,651,726	3.73	
			18,651,726	3.73	4.34
Switzerland – 9.72%	1,235,248	Nestlé	48,625,991	9.72	
			48,625,991	9.72	8.73
United Kingdom – 31.65%	628,591	Admiral	6,694,494	1.34	
	1,456,731	British American Tobacco	46,673,661	9.33	
	971,753	Diageo	17,025,113	3.40	
	1,032,984	Imperial Tobacco	23,686,323	4.74	
	868,083	Reckitt Benckiser	31,033,967	6.20	
	1,456,738	Unilever	33,213,626	6.64	
			158,327,184	31.65	30.31

Global Brands Fund

Portfolio Statement

AS AT 30th SEPTEMBER 2012

	Holdings	Investments	Market Value (£)	% of net asset value 30th Sep 12	% of net asset value 30th Sep 11
United States – 33.92%					
	577,278	Accenture	23,302,918	4.66	
	675,205	Dr Pepper Snapple	18,518,181	3.70	
	370,766	Herbalife	10,761,803	2.15	
	215,806	Mead Johnson Nutrition	9,915,152	1.98	
	1,232,037	Microsoft	22,967,974	4.59	
	592,533	Mondelez International	15,086,908	3.02	
	275,723	Moody's	7,577,311	1.51	
	522,583	Philip Morris International	29,265,146	5.85	
	517,314	Procter & Gamble	22,144,566	4.43	
	123,029	Visa	10,174,262	2.03	
			169,714,221	33.92	43.93
		Portfolio of investments	484,154,405	96.78	96.49
		Net other assets	16,114,280	3.22	3.51
		Net assets	500,268,685	100.00	100.00

All holdings are ordinary shares unless otherwise stated.

PORTFOLIO TURNOVER RATE ("PTR")

	For the year ended 30th Sep 12	For the year ended 30th Sep 11
	19.11%	9.37%

The portfolio turnover rate (PTR) of the Fund is the ratio of the Fund's transactions to its average net assets for twelve months.

Global Brands Fund

Statement of Total Return

FOR THE YEAR ENDED 30th SEPTEMBER 2012

	Notes	30th Sep 12 (£)	30th Sep 12 (£)	30th Sep 11 (£)	30th Sep 11 (£)
Income					
Net capital gains	2		44,162,196		21,634,590
Revenue	3	11,970,949		8,014,544	
Expenses	4	(3,983,137)		(2,556,352)	
Net revenue before taxation		7,987,812		5,458,192	
Taxation	5	(780,348)		(509,276)	
Net revenue after taxation			7,207,464		4,948,916
Total return before distributions			51,369,660		26,583,506
Finance costs: Distributions	6		(7,207,473)		(4,948,919)
Change in net assets attributable to shareholders from investment activities			44,162,187		21,634,587

Statement of Change in Net Assets Attributable to Shareholders

FOR THE YEAR ENDED 30th SEPTEMBER 2012

	30th Sep 12 (£)	30th Sep 12 (£)	30th Sep 11 (£)	30th Sep 11 (£)
Opening net assets attributable to shareholders		307,383,859		187,201,922
Amounts received on issue of shares	200,838,517		170,844,474	
Amounts paid on cancellation of shares	(58,504,902)		(77,559,074)	
		142,333,615		93,285,400
Dilution levy		85,968		52,690
Change in net assets attributable to shareholders from investment activities		44,162,187		21,634,587
Retained distribution on accumulation shares		6,303,056		5,209,260
Closing net assets attributable to shareholders		500,268,685		307,383,859

Balance Sheet

AS AT 30th SEPTEMBER 2012

	Notes	30th Sep 12 (£)	30th Sep 12 (£)	30th Sep 11 (£)	30th Sep 11 (£)
Assets:					
Investment assets			484,154,405		296,607,316
Debtors	7	6,625,041		2,477,652	
Cash and bank balances		14,757,406		11,733,717	
Total other assets			21,382,447		14,211,369
Total assets			505,536,852		310,818,685
Liabilities:					
Creditors	8	4,039,314		3,043,659	
Distribution payable on income shares		1,228,853		391,167	
Total liabilities			5,268,167		3,434,826
Net assets attributable to shareholders			500,268,685		307,383,859

The accompanying notes are an integral part of these Financial Statements.

Global Brands Fund

Distribution Tables

FOR THE YEAR ENDED 30th SEPTEMBER 2012

INTERIM

Group 1 – shares purchased prior to 1st October 2011

Group 2 – shares purchased between 1st October 2011 and 31st March 2012

	Net Income	Equalisation	Distribution paid 31st May 12	Distribution paid 31st May 11
Share Class A – Accumulation				
Group 1	14.5510p	–	14.5510p	–
Group 2	11.5517p	2.9993p	14.5510p	–
Share Class A – Income				
Group 1	2.7623p	–	2.7623p	–
Group 2	1.2125p	1.5498p	2.7623p	–
Share Class I – Accumulation				
Group 1	28.1277p	–	28.1277p	–
Group 2	19.5232p	8.6045p	28.1277p	–
Share Class I – Income				
Group 1	8.8251p	–	8.8251p	–
Group 2	6.6705p	2.1546p	8.8251p	–

FINAL

Group 1 – shares purchased prior to 1st April 2012

Group 2 – shares purchased between 1st April 2012 and 30th September 2012

	Net Income	Equalisation	Distribution payable 30th Nov 12	Distribution paid 30th Nov 11
Share Class A – Accumulation				
Group 1	24.2193p	–	24.2193p	37.1258p
Group 2	7.2528p	16.9665p	24.2193p	37.1258p
Share Class A – Income				
Group 1	7.7673p	–	7.7673p	3.8951p
Group 2	3.7842p	3.9831p	7.7673p	3.8951p
Share Class I – Accumulation				
Group 1	40.2055p	–	40.2055p	62.9912p
Group 2	19.0939p	21.1116p	40.2055p	62.9912p
Share Class I – Income				
Group 1	12.4972p	–	12.4972p	15.1404p
Group 2	4.8615p	7.6357p	12.4972p	15.1404p

EQUALISATION

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It is the average amount of income included in the purchase price of all Group 2 shares and is refunded to holders of these shares as a return of capital. Being capital, it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes.

Global Brands Fund

Notes to the Financial Statements

FOR THE YEAR ENDED 30th SEPTEMBER 2012

1 DERIVATIVES AND FINANCIAL INSTRUMENTS

Please refer to note 3 of the aggregated financial statements for a detailed description of these risks. There were no further specific risks for this Fund.

The Fund's currency exposure as at 30th September 2012 was:

Currency	Net foreign currency assets 30th Sep 12 (£)		
	Monetary Exposure £	Non-Monetary Exposure £	Total £
Canadian Dollar	–	48,625,991	48,625,991
Euro	26,801	80,050,538	80,077,339
Swedish Krona	20	18,651,726	18,651,746
Swiss Franc	445,323	–	445,323
US Dollar	2,660,770	169,714,221	172,374,991
Total	3,132,914	317,042,476	320,175,390

Currency	Net foreign currency assets 30th Sep 11 (£)		
	Monetary Exposure £	Non-Monetary Exposure £	Total £
Euro	(119,176)	20,374,443	20,255,267
Japanese Yen	59,473	4,739,938	4,799,411
Swedish Krona	(124,337)	13,332,276	13,207,939
Swiss Franc	(29,093)	26,833,280	26,804,187
US Dollar	171,860	135,042,206	135,214,066
Total	(41,273)	200,322,143	200,280,870

The interest rate risk profile of the Fund's financial assets and liabilities at 30th September 2012 was:

Currency	Floating Rate financial assets £		Financial assets not carrying interest £	Total £
2012				
Canadian Dollar	–	48,625,991	48,625,991	
Euro	–	80,077,339	80,077,339	
Pound Sterling	14,757,385	170,604,078	185,361,463	
Swedish Krona	20	18,651,726	18,651,746	
Swiss Franc	–	445,323	445,323	
US Dollar	1	172,374,990	172,374,991	
Total	14,757,406	490,779,446	505,536,852	
2011				
Euro	9,472	20,374,443	20,383,915	
Hong Kong Dollar	–	4,799,411	4,799,411	
Pound Sterling	11,683,935	97,577,983	109,261,918	
Swedish Krona	–	13,332,276	13,332,276	
Swiss Franc	8,200	27,035,953	27,044,153	
US Dollar	32,110	135,964,902	135,997,012	
Total	11,733,717	299,084,968	310,818,685	

Currency	Floating Rate financial liabilities £	Financial liabilities not carrying interest £	Total £
2012			
Pound Sterling	–	5,268,167	5,268,167
Total	–	5,268,167	5,268,167
2011			
Euro	–	128,648	128,648
Pound Sterling	–	2,158,929	2,158,929
Swedish Krona	–	124,337	124,337
Swiss Franc	–	239,966	239,966
US Dollar	–	782,946	782,946
Total	–	3,434,826	3,434,826

The Fund's net cash holdings are held in floating rate deposit accounts with interest determined by rates supplied, based on LIBOR or its international equivalent.

2 NET CAPITAL GAINS

	30th Sep 12 (£)	30th Sep 11 (£)
Gains on non-derivative securities	44,227,250	21,772,190
Currency losses	(47,786)	(115,189)
Transaction charges	(17,268)	(22,411)
Net capital gains	44,162,196	21,634,590

3 REVENUE

	30th Sep 12 (£)	30th Sep 11 (£)
Overseas dividends	7,087,264	4,496,461
UK dividends	4,851,925	3,492,881
Bank interest	31,760	25,202
Total revenue	11,970,949	8,014,544

4 EXPENSES

	30th Sep 12 (£)	30th Sep 11 (£)
Payable to the ACD, associates of the ACD, and agents of either of them:		
Management charge	2,989,032	1,928,986
Administration charge	965,596	626,650
	3,954,628	2,555,636
Payable to the Depositary, associates of the Depositary, and agents of either of them:		
Depositary's fees	62,537	44,820
Safe custody fees	51,002	37,092
	113,539	81,912
Other expenses:		
Financial Services Authority fee	554	315
Audit fee*	9,000	9,000
Professional fees	17,657	6,000
Printing & production costs	17,783	5,507
	44,994	20,822
Expenses	4,113,161	2,658,370
Less ACD reimbursement to revenue	(130,024)	(102,018)
Total expenses	3,983,137	2,556,352

* The audit fee for the period, excluding VAT, was £7,500 (2011: £7,500).

Global Brands Fund

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30th SEPTEMBER 2012

5 TAXATION

a) Analysis of charge in the year:

	30th Sep 12 (£)	30th Sep 11 (£)
Overseas tax	780,348	509,276
Total current tax for the year	780,348	509,276

b) Factors affecting current tax charge for the year:

The tax assessed for the year is lower (2011: lower) than the standard rate of corporation tax in the UK for an open-ended investment company (20%).

The differences are explained below:

	30th Sep 12 (£)	30th Sep 11 (£)
Net revenue before taxation	7,987,812	5,458,192
Corporation tax at 20% (2011: 20%)	1,597,562	1,091,638
Effects of:		
Revenue not subject to corporation tax	(2,392,568)	(1,594,992)
Movement in excess expenses	795,006	503,354
Overseas tax	780,348	509,276
Total current tax for the year	780,348	509,276

c) Provision for deferred tax:

At 30th September 2012 the Fund had surplus management expenses of £8,289,825 (30th September 2011: £4,314,795). It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these expenses and therefore a deferred tax asset of £1,657,965 (30th September 2011: £862,959) has not been recognised.

6 FINANCE COSTS

Distributions and interest

The distributions take account of equalisation received on the issue of shares and amounts deducted on the cancellation of shares, and comprise:

	30th Sep 12 (£)	30th Sep 11 (£)
Interim	2,759,249	–
Final	5,182,322	5,600,427
Add: Amounts deducted on cancellation of shares	215,781	450,284
Less: Amounts received on issue of shares	(949,879)	(1,101,792)
Net distribution for the year	7,207,473	4,948,919
Interest	–	–
Total finance costs	7,207,473	4,948,919

Distributions are represented by:

	30th Sep 12 (£)	30th Sep 11 (£)
Net revenue after taxation	7,207,464	4,948,916
Movement on revenue account	9	3
Net distribution for the year	7,207,473	4,948,919

Details of the distribution per share are set out in the Distribution Tables on page 29.

7 DEBTORS

	30th Sep 12 (£)	30th Sep 11 (£)
Accrued revenue	1,030,563	661,583
Amounts receivable for issue of shares	2,950,512	996,237
Sales awaiting settlement	2,169,081	599,995
Overseas tax recoverable	472,127	202,673
Reimbursement of expenses receivable from ACD	–	17,164
Prepaid expenses	2,758	–
Total	6,625,041	2,477,652

8 CREDITORS

	30th Sep 12 (£)	30th Sep 11 (£)
Purchases awaiting settlement	2,373,883	1,860,554
Accrued expenses	133,791	108,359
Amounts payable to ACD	297,985	193,087
Amount payable for cancellation of shares	1,233,655	881,659
Total	4,039,314	3,043,659

Global Brands Fund

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30th SEPTEMBER 2012

9 RELATED PARTY TRANSACTIONS

Morgan Stanley Investment Management (ACD) Limited, as Authorised Corporate Director (ACD), is a related party, and acts as a principal in respect of all transactions of shares in the Company. The aggregate monies received through issues and paid on redemptions are disclosed in the Statement of Change in Net Assets Attributable to Shareholders. Any amounts due to or from Morgan Stanley Investment Management (ACD) Limited at the end of the accounting year are disclosed in notes 7 and 8.

Amounts payable to Morgan Stanley Investment Management (ACD) Limited in respect of fund administration and management services are disclosed in note 4, and amounts due at the end of the year in note 8.

There are no material shareholders.

10 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Fund had no contingent liabilities or capital commitments at the year end date (30th September 2011: nil).

11 DILUTION LEVY

Please refer to note 1(g) of the aggregated accounts for a detailed description of dilution levy.

12 SHAREHOLDERS' FUNDS

The annual management charges for the Fund are as follows:

Class A	1.50%
Class I	0.75%

The net asset value, the net asset value per share and the number of shares are set out in the comparative Net Asset Values Table on page 24. The distribution per share class is given in the Distribution Tables on page 29.

13 PORTFOLIO TRANSACTION COSTS

	30th Sep 12 (£)	30th Sep 11 (£)
Analysis of total purchase costs		
Purchases in the year		
before transaction costs	238,858,149	182,395,501
Commissions	157,261	114,883
Fees	345,418	264,417
Total purchase costs	502,679	379,300
Gross purchase total	239,360,828	182,774,801
Analysis of total sale costs		
Gross sales		
before transaction costs	94,382,236	89,813,038
Commissions	(64,751)	(68,233)
Fees	(4,924)	(579)
Total sale costs	(69,675)	(68,812)
Total sales net of transaction costs	94,312,561	89,744,226

14 POST BALANCE SHEET EVENTS

After the year end, public market fluctuations have resulted in the NAV of the A and I Accumulation share classes dropping 0.14% and 0.05% respectively from £35.82 and £38.48 at 30th September 2012 to £35.77 and £38.46 at 9th November 2012.

With effect from 30th November 2012, the A share class will close to new subscriptions for the foreseeable future.

Sterling Corporate Bond Fund

Fund Review

INVESTMENT OBJECTIVE

The objective of the Fund is to provide an attractive rate of return through investment primarily in sterling corporate and other sterling non-gilt fixed interest securities. A proportion of the Fund may also invest in non-sterling fixed interest securities as well as UK Gilts.

RISK AND REWARD PROFILE



1	2	3	4	5	6	7
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The risk and reward category shown is based on historic data.

- Historic figures are only a guide and may not be a reliable indicator of what may happen in the future.
- As such this category may change in the future.
- The higher the category, the greater the potential reward, but also the greater the risk of losing the investment. Category 1 does not indicate a risk free investment.
- The fund is in this category because it invests in fixed income securities, which tend to be less volatile than company shares.

This rating does not take into account other risk factors which should be considered before investing, these include:

- Your investment can go down as well as up. You may not get back the amount you have invested.
- The value of bonds are likely to decrease if interest rates rise and vice versa.
- Issuers may not be able to repay their debts, if this happens the value of your investment will decrease. This risk is higher where the fund invests in a bond with a lower credit rating. Investors may be compensated for this with higher interest payments.

PERFORMANCE

	Since inception 11/12/00 % change cumulative	1 year % change cumulative	6 months % change cumulative
Merrill Lynch No-Gilts 10+ Years Index	107.09	13.62	7.88
Sterling Corporate Bond Fund A Acc*	65.23	18.72	8.68
Sterling Corporate Bond Fund A Inc*	53.65	17.91	8.52
Sterling Corporate Bond Fund I Acc	97.19	19.37	9.02
Sterling Corporate Bond Fund I Inc*	59.18	18.40	8.75

Source Index: Factset as at 30th September 2012 on a bid-to-bid price basis with net income reinvested.

Source Fund: State Street.

* The A Accumulation, A Income and I Income share classes were launched on 3rd February 2003.

Past performance is no guarantee of future returns. In particular, any returns illustrated here will not necessarily continue at the same levels shown.

NET ASSET VALUES

Date	Net asset value of share class (£)	Shares in issue	Net asset value per share (£)
Share Class A – Accumulation*			
30.09.12	1,118,823	59,637	18.76
30.09.11	1,042,530	65,537	15.91
30.09.10	919,567	56,655	16.23
Share Class A – Income*			
30.09.12	719,365	53,524	13.44
30.09.11	642,822	54,468	11.80
30.09.10	674,232	53,980	12.49
Share Class I – Accumulation*			
30.09.12	4,669,264	238,112	19.61
30.09.11	3,133,819	190,062	16.49
30.09.10	31,846,917	1,893,753	16.82
Share Class I – Income*			
30.09.12	1,221,559	91,069	13.41
30.09.11	1,247,782	105,962	11.78
30.09.10	2,453,743	196,834	12.47

* Valued at bid basis.

SHARE PRICE AND INCOME RECORD

Calendar Year	Highest share price (£)	Lowest share price (£)	Net income per share (p)
Share Class A – Accumulation*			
2012	18.89 ⁽¹⁾	16.30 ⁽¹⁾	62.9207
2011	16.73	15.63	57.0339
2010	16.40	14.92	48.2732
2009	15.09	12.56	47.2153
2008	13.58	12.15	50.0444
2007	13.35	12.68	57.9836
Share Class A – Income*			
2012	13.76 ⁽¹⁾	12.10 ⁽¹⁾	46.2991
2011	12.88	11.69	43.9344
2010	12.94	11.84	38.6178
2009	12.19	10.30	38.8859
2008	11.43	9.99	42.3222
2007	11.85	11.14	40.8059
Share Class I – Accumulation*			
2012	19.76 ⁽¹⁾	16.98 ⁽¹⁾	74.0940
2011	17.40	16.22	66.0684
2010	17.00	15.41	58.0785
2009	15.58	12.92	56.4172
2008	13.70	12.51	58.1644
2007	13.63	13.05	51.3125
Share Class I – Income*			
2012	13.76 ⁽¹⁾	12.08 ⁽¹⁾	52.3414
2011	12.90	11.68	49.9402
2010	12.97	11.83	44.6008
2009	12.23	10.30	44.8067
2008	11.43	9.97	47.9552
2007	11.84	11.13	53.0242

* Valued at mid basis.

⁽¹⁾ 1st January to 30th September 2012.

ONGOING CHARGES FIGURE ("OCF")

	For the year ended 30th Sep 12
'A' Class	1.20%
'I' Class	0.60%

Comparative figures are not currently available, as this is the first period of reporting the OCF.

Sterling Corporate Bond Fund

Fund Review (continued)

PERFORMANCE REVIEW

For the twelve-month period ending 30th September 2012, the fund's I Accumulation class shares outperformed the benchmark Merrill Lynch No-Gilts 10+ Years Index, returning 19.37% (net of fees) versus 13.62% for the index.

The outperformance of the Fund was mainly due to the overweight positions in financials and industrials. The fund also benefited from an average yield advantage of around 2% relative to the benchmark over the period.

MARKET REVIEW

The Fund has fully benefited from the strong performance of sterling credit (i.e. non-government bonds) over the last year. In the UK, as in much of the developed world, credit has benefited from the improvement in investors' perceptions of risks. The Bank of England, like the U.S. Federal Reserve, the European Central Bank (ECB) and the Bank of Japan, has engaged in unorthodox monetary policies given that official interest rates have remained at very low levels. In the UK, for instance, the Bank of England has increased the size of its Asset Purchase Programme to £375bn and is collaborating with HM Treasury in the Funding for Lending Scheme (FLS) which, according to the Bank of England, 'aims to encourage more lending to the UK economy than would have been the case in the absence of the scheme'.¹

Although the details of the various measures taken by the major central banks differ, the measures have ensured that liquidity remains available to the global economy when many households (and governments) are working to strengthen their balance sheets. Arguably the most important initiative was the ECB's commitment in early September 2012 to unlimited quantities of Outright Market Transactions (OMT) – large scale purchases of the bonds of financially troubled euro area governments (provided that those governments meet certain conditions). The implication of OMT is that a disorderly default by a euro area government is very much less likely than would otherwise have been the case.

In the meantime, the UK economy has remained in or near recession, and inflationary pressures have continued to abate.

PORTFOLIO ACTIVITY

The fund has remained active throughout the year in new issues, particularly when there was a significant discount on these bonds relative to existing securities. This added to the portfolio's performance.

STRATEGY & OUTLOOK

We continue to look for slow economic growth in the UK and across Europe. Although there are significant downside risks, we are encouraged by three factors: monetary policy remains accommodative; commodity prices have fallen from recent highs; and disruptions to global supply chains that resulted from natural disasters in the Asia-Pacific have largely been reversed.

We stress that valuation levels for UK credit appear to us to be very attractive – even after a year of excellent performance by the asset class. Credit spreads are consistent with those that were prevailing in past recessions and in 2008. Implied default rates are extremely high relative to the historical experience.

In relation to financials, we are encouraged by three key developments. Capital will be increased as a result of the requirement of the European Banking Authority for banks to achieve Tier One capital equivalent to 9% of risk weighted assets by mid-2012. Secondly, the banks have greater access to liquidity – thanks to the ECB's long-term refinancing operation (LTRO). Thirdly, the establishment of a single bank regulator for the euro area, under the ECB, is positive.

All information is provided for informational purposes only and should not be deemed as a recommendation to purchase or sell the securities mentioned.

¹ <http://www.bankofengland.co.uk/markets/Pages/FLS/data.aspx> as at 15th October 2012.

Sterling Corporate Bond Fund

Portfolio Statement

AS AT 30th SEPTEMBER 2012

	Holdings	Investments	Market Value (£)	% of net asset value 30th Sep 12	% of net asset value 30th Sep 11
Corporate Bonds – 80.43%					
	150,000	Abbey National 4.125% 2017	157,502	2.04	
	100,000	ABN Amro 4.875% 2019	109,092	1.41	
	100,000	ABP Finance 6.25% 2026	106,995	1.38	
	100,000	America Movil 5.00% 2026	116,572	1.51	
	100,000	BAA Funding 6.00% 2020	109,963	1.42	
	100,000	Bank of America 6.125% 2021	115,418	1.49	
	50,000	BAT International Finance 6.00% 2022	62,226	0.81	
	50,000	BAT International Finance 6.00% 2034	63,378	0.82	
	100,000	BBVA Subordinated Capital 5.75% 2018	86,840	1.12	
	100,000	BHP Billiton Finance 3.25% 2024	99,990	1.29	
	90,000	BNP Paribas 3.50% 2016	94,639	1.22	
	50,000	Canary Wharf Finance II 5.952% 2035	62,352	0.81	
	100,000	Citigroup 7.375% 2039	129,377	1.67	
	100,000	Commonwealth Bank of Australia 3.00% 2026	100,440	1.30	
	50,000	Coventry Building Society 5.875% 2022	55,280	0.72	
	150,000	Credit Agricole 7.375% 2023	155,788	2.02	
	100,000	Credit Suisse Finance 7.00% 2020	112,589	1.46	
	60,000	Deutsche Telecom 7.625% 2030	85,764	1.11	
	100,000	Electricite De France 5.50% 2041	111,430	1.44	
	150,000	ENEL 5.75% 2040	127,276	1.65	
	100,000	Finmeccanica Finance 8.00% 2019	104,316	1.35	
	50,000	Firstgroup 6.875% 2024	55,670	0.72	
	100,000	France Telecom 5.375% 2050	106,381	1.38	
	100,000	Gatwick Funding 5.75% 2037	108,396	1.40	
	20,000	GE Capital UK Funding 2.25% 2015	20,424	0.26	
	50,000	General Electric Capital 4.125% 2017	54,205	0.70	
	100,000	General Electric Capital 5.125% 2023	112,689	1.46	
	125,000	Goldman Sachs 6.125% 2017	134,204	1.74	
	75,000	Heathrow Funding 6.25% 2018	83,856	1.09	
	100,000	HSBC Bank 6.50% 2024	128,413	1.66	
	50,000	ING 3.875% 2016	52,752	0.68	
	100,000	ING Bank 6.875% 2023	107,014	1.38	
	100,000	IPIC GMTN 6.875% 2026	122,000	1.58	
	170,000	KFW 6.00% 2028	239,972	3.10	
	50,000	Lafarge 10.00% 2017	59,011	0.76	
	150,000	Lloyds TSB Bank 7.625% 2025	156,915	2.03	
	100,000	London Power Networks 5.125% 2023	116,515	1.51	
	100,000	Marks & Spencer 6.125% 2021	111,244	1.44	
	100,000	Metropolitan Life Global Funding I 3.50% 2026	102,950	1.33	
	100,000	Motability Operations 4.375% 2027	109,735	1.42	
	100,000	National Grid Electricity Transmission 4.00% 2027	102,854	1.33	
	125,000	Nationwide Building Society 5.625% 2019	146,511	1.90	
	60,000	Pemex Project Trust 7.50% 2013	63,612	0.82	
	100,000	Petrobras Global Finance 5.375% 2029	100,744	1.30	
	50,000	Porterbrook Rail Finance 7.125% 2026	65,678	0.85	
	50,000	Rentokil Initial 5.75% 2016	54,183	0.70	
	150,000	Royal Bank of Scotland 6.625% 2018	178,266	2.31	
	100,000	Siemens Financieringsmaatschappij 3.75% 2042	96,501	1.25	
	125,000	Société Générale 5.40% 2018	128,495	1.66	
	50,000	Stagecoach 5.75% 2016	55,437	0.72	
	100,000	Telecom Italia 5.625% 2015	104,642	1.35	
	50,000	Telecom Italia 5.875% 2023	48,774	0.63	
	100,000	Telefonica Emision 5.289% 2022	92,222	1.19	
	97,270	Tesco Property Finance 7.6227% 2039	132,258	1.71	
	100,000	Thames Water Utilities Cayman Finance 5.75% 2030	112,018	1.45	
	100,000	Transport for London 3.875% 2042	100,947	1.31	
	100,000	Virgin Media Secured Finance 5.50% 2021	108,903	1.41	
	35,000	Volkswagen Financial Services 2.00% 2015	35,725	0.46	
	50,000	Washington Mutual Bank 5.50% 2019*	23	0.00	
	100,000	Western Power Distribution East Midlands 5.25% 2023	117,938	1.53	
	100,000	Westfield UK & Europe Finance 4.25% 2022	104,102	1.35	
	50,000	Xstrata Canada Financial 7.375% 2020	61,419	0.79	
	50,000	Yorkshire Water Services Bradford Finance 6.00% 2025	55,626	0.73	
		6,216,451		80.43	80.74

Sterling Corporate Bond Fund

Portfolio Statement (continued)

AS AT 30th SEPTEMBER 2012

	Holdings	Investments	Market Value (£)	% of net asset value 30th Sep 12	% of net asset value 30th Sep 11
Perpetual Call Bonds – 7.80%					
	100,000	Aviva 6.125%	79,917	1.03	
	50,000	Barclays Bank 14.00%	62,694	0.81	
	50,000	Barclays Bank 8.25%	49,811	0.64	
	100,000	DNB Nor Bank 6.0116%	97,834	1.27	
	100,000	ELM 6.3024%	94,650	1.22	
	150,000	Generali Finance 6.214%	103,818	1.34	
	50,000	Legal & General Group 5.875%	44,748	0.58	
	100,000	National Westminster 7.125%*	69,952	0.91	
			603,424	7.80	12.44
Supra-national Borrowers – 5.22%					
	£50,000	European Investment Bank 4.75% 2018	58,750	0.76	
	£270,000	European Investment Bank 5.50% 2025	344,520	4.46	
			403,270	5.22	5.32
Futures Contracts – 0.02%					
	2	UK Long Gilt Bond Futures December 2012	1,190	0.02	
			1,190	0.02	(0.04)
Portfolio of investments			7,224,335	93.47	98.46
Net other assets			504,676	6.53	1.54
Net assets			7,729,011	100.00	100.00

All Investments in bond are held in Pounds sterling.

* Stale priced

Rating block	Market value (£)
AAA	806,034
AA	662,241
A	1,679,878
A-	157,502
BBB	2,967,648
BBB+	61,419
BBB-	410,654
Unrated	477,769
Portfolio of investments	7,223,145

PORTFOLIO TURNOVER RATE ("PTR")

	For the year ended 30th Sep 12	For the year ended 30th Sep 11
	441.44%	78.46%

The portfolio turnover rate (PTR) of the Fund is the ratio of the Fund's transactions to its average net assets for twelve months.

Sterling Corporate Bond Fund

Statement of Total Return

FOR THE YEAR ENDED 30th SEPTEMBER 2012

	Notes	30th Sep 12 (£)	30th Sep 12 (£)	30th Sep 11 (£)	30th Sep 11 (£)
Income					
Net capital gains/(losses)	2		798,620		(1,539,510)
Revenue	3	360,901		967,122	
Expenses	4	(45,724)		(115,899)	
Finance costs: Interest	6	(130)		(344)	
Net revenue before taxation		315,047		850,879	
Taxation	5	–		–	
Net revenue after taxation			315,047		850,879
Total return before distributions			1,113,667		(688,631)
Finance costs: Distributions	6		(315,047)		(850,879)
Change in net assets attributable to shareholders from investment activities			798,620		(1,539,510)

Statement of Change in Net Assets Attributable to Shareholders

FOR THE YEAR ENDED 30th SEPTEMBER 2012

	30th Sep 12 (£)	30th Sep 12 (£)	30th Sep 11 (£)	30th Sep 11 (£)
Opening net assets attributable to shareholders		6,066,953		35,894,459
Amounts received on issue of shares	1,845,396		1,323,251	
Amounts paid on cancellation of shares	(1,214,409)		(29,792,219)	
		630,987		(28,468,968)
Dilution levy		30,817		18,023
Change in net assets attributable to shareholders from investment activities		798,620		(1,539,510)
Retained distribution on accumulation shares		201,634		162,949
Closing net assets attributable to shareholders		7,729,011		6,066,953

Balance Sheet

AS AT 30th SEPTEMBER 2012

	Notes	30th Sep 12 (£)	30th Sep 12 (£)	30th Sep 11 (£)	30th Sep 11 (£)
Assets					
Investment assets			7,224,335		5,975,935
Debtors	7	519,695		2,268,432	
Cash and bank balances		389,525		314,832	
Total other assets			909,220		2,583,264
Total assets			8,133,555		8,559,199
Liabilities					
Investment liabilities			–		2,694
Creditors	8	370,184		2,412,704	
Bank overdrafts		–		–	
Distribution payable on income shares		34,360		76,848	
Total other liabilities			404,544		2,489,552
Total liabilities			404,544		2,492,246
Net assets attributable to shareholders			7,729,011		6,066,953

The accompanying notes are an integral part of these Financial Statements.

Sterling Corporate Bond Fund

Distribution Tables

FOR THE YEAR ENDED 30th SEPTEMBER 2012

INTERIM

Group 1 – shares purchased prior to 1st October 2011

Group 2 – shares purchased between 1st October 2011 and 31st March 2012

	Gross Income	Income Tax	Net Income	Equalisation	Distribution paid 31st May 12	Distribution paid 31st May 11
Share Class A – Accumulation						
Group 1	41.1614p	8.2323p	32.9291p	–	32.9291p	–
Group 2	1.4801p	0.2960p	1.1841p	31.7450p	32.9291p	–
Share Class A – Income						
Group 1	30.4825p	6.0965p	24.3860p	–	24.3860p	–
Group 2	18.4395p	3.6879p	14.7516p	9.6344p	24.3860p	–
Share Class I – Accumulation						
Group 1	47.9761p	9.5952p	38.3809p	–	38.3809p	–
Group 2	6.6583p	1.3317p	5.3266p	33.0543p	38.3809p	–
Share Class I – Income						
Group 1	34.3631p	6.8726p	27.4905p	–	27.4905p	–
Group 2	32.6306p	6.5261p	26.1045p	1.3860p	27.4905p	–

FINAL

Group 1 – shares purchased prior to 1st April 2012

Group 2 – shares purchased between 1st April 2012 and 30th September 2012

	Gross Income	Income Tax	Net Income	Equalisation	Distribution payable 30th Nov 12	Distribution paid 30th Nov 11
Share Class A – Accumulation						
Group 1	37.4895p	7.4979p	29.9916p	–	29.9916p	57.0339p
Group 2	4.7909p	0.9582p	3.8327p	26.1589p	29.9916p	57.0339p
Share Class A – Income						
Group 1	27.3914p	5.4783p	21.9131p	–	21.9131p	43.9344p
Group 2	20.0336p	4.0067p	16.0269p	5.8862p	21.9131p	43.9344p
Share Class I – Accumulation						
Group 1	44.6414p	8.9283p	35.7131p	–	35.7131p	66.0684p
Group 2	19.3765p	3.8753p	15.5012p	20.2119p	35.7131p	66.0684p
Share Class I – Income						
Group 1	31.0636p	6.2127p	24.8509p	–	24.8509p	49.9402p
Group 2	2.8103p	0.5621p	2.2482p	22.6027p	24.8509p	49.9402p

EQUALISATION

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It is the average amount of income included in the purchase price of all Group 2 shares and is refunded to holders of these shares as a return of capital. Being capital, it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes.

Sterling Corporate Bond Fund

Notes to the Financial Statements

FOR THE YEAR ENDED 30th SEPTEMBER 2012

1 DERIVATIVES AND FINANCIAL INSTRUMENTS

Please refer to note 3 of the aggregated financial statements for a detailed description of these risks. There were no further specific risks for this Fund.

The Fund's currency exposure as at 30th September 2012 was:

Currency	Monetary Exposure £	Net foreign currency assets 30th Sep 12 (£)		Total £
		Monetary Exposure £	Non-Monetary Exposure £	
Euro	6,155	–	–	6,155
US Dollar	1,548	–	–	1,548
Total	7,703	–	–	7,703

Currency	Monetary Exposure £	Net foreign currency assets 30th Sep 11 (£)		Total £
		Monetary Exposure £	Non-Monetary Exposure £	
Euro	1,799	–	–	1,799
US Dollar	284	–	–	284
Total	2,083	–	–	2,083

The interest rate risk profile of the Fund's financial assets at 30th September 2012 was:

Currency	Floating Rate financial assets £	Fixed Rate financial assets £	Financial assets not carrying interest £	Total £
2012				
Euro	6,155	–	–	6,155
Pound Sterling	381,822	7,223,145	520,885	8,125,852
US Dollar	1,548	–	–	1,548
Total	389,525	7,223,145	520,885	8,133,555
2011				
Euro	1,799	–	–	1,799
Pound Sterling	312,749	5,975,935	2,268,432	8,557,116
US Dollar	284	–	–	284
Total	314,832	5,975,935	2,268,432	8,559,199

Currency	Floating Rate financial liabilities £	Financial liabilities not carrying interest £	Total £
2012			
Pound Sterling	–	404,544	404,544
Total	–	404,544	404,544
2011			
Pound Sterling	–	2,492,246	2,492,246
Total	–	2,492,246	2,492,246

The Fund's net cash holdings are held in floating rate deposit accounts with interest determined by rates supplied, based on LIBOR or its international equivalent.

	Fixed rate financial assets Weighted average interest rate	Weighted average years for which rate is fixed
2012		
Fixed life bonds	5.74%	12.89 years
2011		
Fixed life bonds	5.39%	15.54 years

2 NET CAPITAL GAINS/(LOSSES)

	30th Sep 12 (£)	30th Sep 11 (£)
Gains/(losses) on non-derivative securities	791,411	(1,537,589)
Gains on derivative securities	12,793	5,524
Currency (losses)/gains	(1,169)	764
Transaction charges	(4,415)	(8,209)
Net capital gains/(losses)	798,620	(1,539,510)

3 REVENUE

	30th Sep 12 (£)	30th Sep 11 (£)
Interest on debt securities	360,778	965,743
Bank interest	123	1,379
Total revenue	360,901	967,122

Sterling Corporate Bond Fund

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30th SEPTEMBER 2012

4 EXPENSES

	30th Sep 12 (£)	30th Sep 11 (£)
Payable to the ACD, associates of the ACD, and agents of either of them:		
Management charge	31,627	78,941
Administration charge	15,550	44,203
	47,177	123,144
Payable to the Depositary, associates of the Depositary, and agents of either of them:		
Depositary's fees	19,440	21,487
Safe custody fees	12,480	14,400
	31,920	35,887
Other expenses:		
Financial Services Authority fee	554	315
Audit fee*	9,000	9,000
Professional fees	14,941	6,000
Printing & production costs	21,309	5,107
	45,804	20,422
Expenses	124,901	179,453
Less ACD reimbursement to revenue	(79,177)	(63,554)
Total expenses	45,724	115,899

* The audit fee for the period, excluding VAT, was £7,500 (2011: £7,500).

5 TAXATION

a) Analysis of charge in the year:

	30th Sep 12 (£)	30th Sep 11 (£)
Corporation tax	–	–
Total current tax for the year	–	–

b) Factors affecting current tax charge for the year:

The tax assessed for the period is lower (2011: lower) than the standard rate of corporation tax in the UK for an open-ended investment company (20%).

The differences are explained below:

	30th Sep 12 (£)	30th Sep 11 (£)
Net revenue before taxation	315,047	850,879
Corporation tax at 20% (2011: 20%)	63,009	170,176
Effects of:		
Tax deductible interest distributions	(63,009)	(170,176)
Total current tax for the year	–	–

6 FINANCE COSTS

Distributions and interest

The distributions take account of equalisation received on the issue of shares and deducted on the cancellation of shares, and comprise:

	30th Sep 12 (£)	30th Sep 11 (£)
Final	137,283	239,797
Interim	135,335	–
Add: Amounts deducted on cancellation of shares	8,763	467,711
Less: Amounts received on issue of shares	(29,343)	(26,805)
Income tax withheld at source	63,009	170,176
Net distribution for the year	315,047	850,879
Interest	130	344
Total finance costs	315,177	851,223
Distributions are represented by:		
	30th Sep 12 (£)	30th Sep 11 (£)
Net revenue after taxation	315,047	850,879
Net distribution for the year	315,047	850,879

Details of the distribution per share are set out in the Distribution Tables on page 38.

Sterling Corporate Bond Fund

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30th SEPTEMBER 2012

7 DEBTORS

	30th Sep 12 (£)	30th Sep 11 (£)
Accrued revenue	168,240	165,088
Amounts receivable for issue of shares	245,687	1,709
Sales awaiting settlement	85,798	2,097,744
Reimbursement of expenses receivable from ACD	16,356	3,891
Prepaid expenses	3,614	–
	519,695	2,268,432

8 CREDITORS

	30th Sep 12 (£)	30th Sep 11 (£)
Purchases awaiting settlement	183,013	203,658
Accrued expenses	24,187	27,960
Amounts payable to ACD	2,926	3,460
Income tax payable	63,027	170,194
Amount payable for cancellation of shares	97,031	2,007,432
	370,184	2,412,704

9 RELATED PARTY TRANSACTIONS

Morgan Stanley Investment Management (ACD) Limited, as Authorised Corporate Director (ACD), is a related party, and acts as a principal in respect of all transactions of shares in the Company. The aggregate monies received through issues and paid on redemptions are disclosed in the Statement of Change in Net Assets Attributable to Shareholders. Any amounts due to or from Morgan Stanley Investment Management (ACD) Limited at the end of the accounting year are disclosed in notes 7 and 8.

Amounts payable to Morgan Stanley Investment Management (ACD) Limited in respect of fund administration and management services are disclosed in note 4, and amounts due at the end of the year in note 8.

There are no material shareholders.

10 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Fund had no contingent liabilities or capital commitments at the year end date (30th September 2011: Nil).

11 DILUTION LEVY

Please refer to note 1(g) of the aggregated accounts for a detailed description of dilution levy.

12 SHAREHOLDERS' FUNDS

The annual management charges for the Fund are as follows:

Class A	0.90%
Class I	0.40%

For each Fund, the net asset value, the net asset value per share and the number of shares are set out in the comparative Net Asset Values Table on page 33. The distribution per share class is given in the Distribution Tables on page 38.

13 PORTFOLIO TRANSACTION COSTS

	30th Sep 12 (£)	30th Sep 11 (£)
Analysis of total purchase costs		
Purchases in the year		
before transaction costs	15,600,479	9,076,437
Commissions	–	–
Total purchase costs	–	–
Gross purchase total	15,600,479	9,076,437
Analysis of total sale costs		
Gross sales		
before transaction costs	15,134,593	35,907,721
Commissions	–	–
Total sale costs	–	–
Total sales net of transaction costs	15,134,593	35,907,721

14 POST BALANCE SHEET EVENTS

After the year end, public market fluctuations have resulted in the NAV of the A and I Accumulation share classes increasing 2.81% and 2.84% respectively from £18.85 and £19.72 at 30th September 2012 to £19.38 and £20.28 at 9th November 2012.

Further information

REPORTS & ACCOUNTS

Each year, you will be sent the short form report in accordance with the requirement of Financial Services Authority's (FSA) regulations. The annual and semi-annual report is available at our website www.morganstanley.com or by writing to Morgan Stanley Investment Management (ACD) Limited, 25 Cabot Square, Canary Wharf, London E14 4QA.

The maintenance and integrity of the Morgan Stanley Investment Management Limited website is the responsibility of the Morgan Stanley Funds (UK). The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

UCITS IV

The Company is an Undertaking for Collective Investment in Transferable Securities ("UCITS IV") for the purpose of the Council Directive 2009/65/EC, transposed on 1st July 2011 into UK law.

PROSPECTUS

The Fund Prospectus, an important document describing each Fund in detail, is available from the ACD, which is responsible for the management and administration of the Funds.

The ACD for Morgan Stanley Funds (UK) is Morgan Stanley Investment Management (ACD) Limited, located at 25 Cabot Square, Canary Wharf, London E14 4QA.

TYPES OF SHARE AVAILABLE

Each of the Funds of Morgan Stanley Funds (UK) offers two classes of shares: Advisory or Class A shares and Institutional or Class I shares. The share classes are differentiated in terms of minimum initial and subsequent investment required and the annual management charge.

The Funds may issue Income and Accumulation shares in each Class.

With effect from 30th November 2012, the A share class of the Global Brands Fund will close to new subscriptions for the foreseeable future.

MINIMUM INVESTMENT

For Class A shares, a minimum initial investment of £1,000 is required; additional investments may be subject to a £500 minimum injection. For Class I shares, a minimum initial investment of £500,000 is required; additional investments may be subject to a £2,500 minimum injection.

With effect from 30th November 2012, the minimum initial investment for Class I will be £50,000. The minimum subsequent investment will remain at £2,500.

MINIMUM REDEMPTION

The ACD may refuse a redemption request if the total value of the shares to be redeemed falls below a certain level. For Class A shares, this level is £1,000 for any Fund; for Class I shares, the minimum level is £500,000 for any Fund.

SWITCHING

Investors may sell their shares and transfer the proceeds into any of the other Funds by calling our dealing desk on 0800 328 1571.

DISTRIBUTIONS

Income distributions are allocated to shareholders at the end of each accounting period (31st March and 30th September) and paid within 2 months following the end of each accounting period. Income allocated in respect of Income and Accumulation shares is automatically reinvested at no charge.

PUBLICATION OF PRICES

The most recent share prices will be published daily in the Financial Times.

CHARGES

A preliminary charge of 5.00% may be levied on the purchase of class A shares in all Funds. Part or all of the preliminary charge may be waived at the Authorised Corporate Director's (ACD's) discretion. On an exchange of shares of one Class or Fund for shares in another Class or Fund, the ACD may take a charge not exceeding the excess of the amount of the prevailing preliminary charge for the new shares being acquired over the preliminary charge levied on the acquisition of the original shares. There are no exit charges for Morgan Stanley Funds (UK). A proportion of the annual management charge is deducted from the net assets of each Fund on a daily basis. Charges for items such as administration, custody, and auditors fees are also deducted from each Fund.

DILUTION LEVY

The transaction costs associated with Fund investments may vary from the mid market value used in calculating the Fund's share price. This may sometimes have an adverse effect on the shareholders' interest in the Fund, called "dilution". To prevent this effect, the ACD may apply a dilution levy to share purchases or redemptions. This charge is paid into and becomes part of the relevant Fund. For the Morgan Stanley Funds (UK), effective 5th May 2011, a swing factor of up to 1% will be applied if the net subscription or net redemption on a given day exceeds a pre-determined level (the "Swing Threshold").

Recipients of this document should not treat the contents as advice relating to legal, taxation or investment matters and should consult their own professional advisers concerning the acquisition, holding or disposing of investments in the Funds.

Past performance is not necessarily indicative of future performance and the value of the shares and income from them may fall as well as rise. On redemption of shares, the investor may receive back an amount less than the original amount of their investment. The assets of the Funds will be in a variety of currencies and therefore movements in the value of currencies may affect the value of an investor's holdings and the income from the holdings may fluctuate in value in money terms.

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