

UCITS III FAQs for Morgan Stanley Funds p.l.c.

WHAT IS UCITS III?

UCITS III is the European legislation that regulates funds sold across the EU member states. UCITS III is split into two parts: the Management Directive and the Product Directive.

WHAT IS THE MANAGEMENT DIRECTIVE?

The Management Directive increases the scope of management companies' activities to include discretionary management, safekeeping and fund administration. The Directive also aims to protect investors by ensuring that management companies are suitably capitalised, and that they have appropriate measures in place for risk management and reporting. The Directive also introduces the Simplified Prospectus.

WHAT IS THE SIMPLIFIED PROSPECTUS?

The Simplified Prospectus is an entirely new document that is designed to provide investors with a shortened 'core' version of the current Prospectus, whilst introducing additional features such as performance figures. The Simplified Prospectus does not replace the current Prospectus, and the current Prospectus will still be available for all investors.

WHAT IS THE PRODUCT DIRECTIVE?

The Product Directive expands the range and type of financial instruments that are permitted within UCITS funds, in particular allowing investment in derivatives for investment as well as for existing risk reduction purposes (subject to certain risk controls), and investment in other funds. The Directive also increases the investment limits for particular types of financial instruments, and puts in place a combined investment limit on all of a fund's exposure to any one group of companies.

WHAT IMPACT DO THE DIRECTIVES HAVE ON MORGAN STANLEY FUNDS P.L.C.?

Because Morgan Stanley Funds p.l.c. was authorised after February 2002 it has to comply with the Product Directive by 13th February 2004 (though this is subject to postponement), but has until 13th February 2007 to comply with the Management Directive.

In making the required transition to the Product Directive, there will be no immediate impact on any of the funds' investment objectives and strategies.

With regards the Management Directive, changes to the structure of Morgan Stanley Funds p.l.c. may be required at a future date, but no immediate changes are required. Morgan Stanley may decide before February 2007 to convert to UCITS III, and if and when this takes place, we will again communicate this to you. The only immediate significant change may be the introduction of a Simplified Prospectus; we are closely monitoring this.

WHY IS MORGAN STANLEY NOT TAKING ADVANTAGE OF THE NEW PRODUCT/INVESTMENT OPPORTUNITIES THAT ARE ALLOWED UNDER UCITS III?

We have no immediate plans to launch any new sub-funds nor to amend existing sub-funds of Morgan Stanley Funds p.l.c. as a result of UCITS III. The Product directive does not present significant investment opportunities for AAA-rated Liquidity Funds.

WHO SHOULD I CONTACT FOR FURTHER INFORMATION?

For further information on UCITS III and its impact on Morgan Stanley Funds p.l.c. please contact either Marcus Littler on (44 20) 7425 2391 or John Bentley on (4420) 7425 7160.