Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.
Form N-CSR
January 08, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-022011

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.
(Exact name of registrant as specified in charter)

522 Fifth Avenue, New York, New York	10036
(Address of principal executive offices)	(Zip code)

John H. Gernon

522 Fifth Avenue, New York, New York 10036
(Name and address of agent for service)

Registrant s telephone number, including area code: 212-296-0289

Date of fiscal year end: October 31

Date of reporting period: October 31, 2014

Item 1 - Report to Shareholders

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

Directors

Frank L. Bowman

Michael Bozic

Kathleen A. Dennis

James F. Higgins

Dr. Manuel H. Johnson

Joseph J. Kearns

Michael F. Klein

Michael E. Nugent

W. Allen Reed

Fergus Reid

Officers

Michael E. Nugent

Chairperson of the Board

John H. Gernon

President and Principal Executive Officer

Stefanie V. Chang Yu

Chief Compliance Officer

Joseph C. Benedetti

Vice President

Francis J. Smith

Treasurer and Principal Financial Officer

Mary E. Mullin

Secretary

Adviser and Administrator

Morgan Stanley Investment Management Inc.

522 Fifth Avenue

New York, New York 10036

Custodian

State Street Bank and Trust Company

One Lincoln Street

Boston, Massachusetts 02111

Stockholder Servicing Agent

Computershare Trust Company, N.A.

211 Quality Circle, Suite 210

College Station, Texas 77845

Legal Counsel

Dechert LLP

1095 Avenue of the Americas

New York, New York 10036

Counsel to the Independent Directors

Kramer Levin Naftalis & Frankel LLP

1177 Avenue of the Americas

New York, New York 10036

Independent Registered Public Accounting Firm

Ernst & Young LLP

200 Clarendon Street

Boston, Massachusetts 02116

For additional Fund information, including the Fund's net asset value per share and information regarding the investments comprising the Fund's portfolio, please call toll free 1 (800) 231-2608 or visit our website at www.morganstanley.com/im. All investments involve risks, including the possible loss of principal.

INVESTMENT MANAGEMENT

Morgan Stanley
Investment Management Inc.
Adviser

Morgan Stanley
Emerging Markets Domestic Debt Fund, Inc.
NYSE: EDD

Annual Report

October 31, 2014

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October 31, 2014

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Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2014

Letter to Stockholders (unaudited)

Performance

For the year ended October 31, 2014, the Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. (the "Fund") had total returns of -5.80%, based on net asset value, and -5.52% based on market value per share (including reinvestment of distributions), compared to its benchmark, the J.P. Morgan Government Bond Index Emerging Markets Global Diversified Index (the "Index")*, which returned -2.68%. On October 31, 2014, the closing price of the Fund's shares on the New York Stock Exchange was $11.96, representing a 12.5% discount to the Fund's net asset value per share. Past performance is no guarantee of future results.

Factors Affecting Performance

• Investor's negative sentiment toward emerging markets (EM) local debt carried over from 2013 into the beginning of 2014 before recovering some of its lost ground starting in February. Concerns about global growth (especially the pace of economic growth in China), weakening commodity prices, and the Ukraine-Russia conflict dampened sentiment during the reporting period. The strength of the U.S. economy relative to Europe's and Japan's, as well as weak commodity prices, contributed to appreciation in the U.S. dollar versus most currencies in the year. Interest income and capital appreciation drove EM local debt returns up 6.95%, but currencies weakened -9.63% versus the U.S. dollar, combining for a total return of -2.68% in U.S. dollar-terms for the broader market, as measured by the Index.**

• In China, the potential default of a $500 million investment product raised concerns about both the growth outlook for the Chinese economy and the health of its shadow banking system. A last-minute bailout averted the imminent default, though it sparked criticism, as the government missed a chance to address moral hazard risks in the financial system. Concerns about a "hard landing" (or, growth slowing too rapidly) for China's economy and the impact it could have on other EM exporters, particularly the commodity exporters of Latin America, weighed on EM currencies for much of the period.

• Monetary policy in emerging markets diverged throughout the period, as central banks responded to varying threats. Financial markets continued to exert pressure on those economies with fragile external sectors and whose central banks were perceived as behind-the-curve on raising interest rates. Early in the year, several central banks, including those from Turkey, South Africa, India, Malaysia, and Thailand, hiked lending rates to help defend against currency weakness. This hiking trend continued later in the year, as inflationary pressures prompted rate hikes by the central banks of Russia, Colombia, Brazil, and the Philippines. Russia's central bank was also attempting to stem the capital outflows from the country as investors sold Russian assets after the economy suffered from sanctions stemming from the conflict in Ukraine and falling oil prices. Growth and inflation trends weakened, prompting several central banks begin to ease monetary conditions. In Mexico and Chile, interest rate cuts were aimed at weaker-than-expected growth, while growth and dis-inflationary trends were targeted by the central banks of Hungary, Poland, and Romania.

• The ongoing conflict in Ukraine continued to negatively impact Ukrainian and Russian assets. Political instability in Ukraine intensified after the resignation of Prime Minister Azarov's cabinet and other concessions from President Yanukovych failed to appease political protesters in early 2014. Maidan Square protesters eventually succeeded in bringing down President Yanukovych's regime. The initial optimism quickly faded as separatist tensions in the Crimean Peninsula, as well as other Eastern

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

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Letter to Stockholders (unaudited) (cont'd)

Ukrainian regions, culminated in a Russian annexation of Crimea in March. In July, the downing of a Malaysian passenger plane, as well as Russia's annexation and continued involvement in the conflict in Eastern Ukraine, triggered sanctions on Russia by the European Union (EU) and the United States. Russia retaliated in-kind, barring the import of foodstuffs from sanctioning nations. The Ukrainian government and pro-Russian rebels agreed to a tenuous ceasefire in September, which briefly held in place before troops continued to amass and bouts of heavy fighting resumed. With natural gas supplies cut off from Russia, and production and energy assets inaccessible in rebel-held territory, Ukraine faces a difficult situation in coming to terms with the rebels and Russia as winter approaches. The loss of the Eastern region, which accounts for a large portion of Ukraine's gross domestic product (GDP), would make it even more difficult for the country to rebound without significant foreign aid above and beyond what the International Monetary Fund (IMF) has promised and paid.

- In electoral developments, the promise of economic change brought two market-friendly candidates to power in India and Indonesia, while incumbents retained power in Turkey and Brazil. In Indonesia, Joko Widodo won the presidential election and is challenged with implementing structural and subsidy reforms aimed at unlocking Indonesia's potential growth. India's Bharatiya Janata Party (BJP) won elections by the largest margin of victory of any coalition since 1984 and led to reform-minded Narendra Modi taking the role of Prime Minister. Modi's mandate was to improve economic growth that had fallen to 4.5% from 9% on average for the prior decade.** In Turkey, Recep Tayyip Erdogan was elected president as expected, and chose Ahmet Davutoglu as prime minister, who, in turn, kept the cabinet largely unchanged. These actions signaled policy continuity as the key economic policymakers would remain in the government at least until parliamentary elections in June 2015. In Brazil, incumbent president Dilma Rouseff fended off Aecio Neves in a runoff election to retain the presidency. Rouseff acknowledged concerns about the economy in her acceptance speech and promised to address economic growth, inflation, and political corruption. The Brazilian economy has struggled in 2014 and officially entered into recession after second quarter GDP growth fell -0.6% quarter-over-quarter and first quarter growth was revised to -0.2% quarter-over-quarter.**

- During the period, the Fund benefited from an overweight allocation and duration positioning in Malaysia, Poland, Mexico, Peru, Indonesia, and Hungary.

- Conversely, overweight positioning in Russia and Turkey detracted from relative performance, as did an overweight in the Brazilian real. Holdings in Venezuelan U.S. dollar-denominated debt also detracted from relative performance.

Management Strategies

- We expect developed market policy makers, primarily in the U.S. and U.K., to continue their steady withdrawal of monetary stimulus, in sync with a cyclical recovery in economic activity. While developed market monetary tightening could continue to generate volatility in emerging markets, faster developed market growth should bode well for emerging market growth in the medium term. In addition, a continued dovish stance, which favors maintaining low interest rates to foster economic growth, by the European Central Bank (ECB) and Bank of Japan (BOJ) may support emerging markets and could partially offset the effects of a less accommodative U.S. monetary policy. Lastly, supply and demand dynamics appear supportive as supply has been manageable and investor inflows have recovered relative to earlier this year.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

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Letter to Stockholders (unaudited) (cont'd)

- The primary risks that we continue to monitor are U.S. interest rates potentially rising, Chinese economic growth and policy, the active election calendar, and ongoing geopolitical events in Europe and the Middle East. We expect a slowing China will continue to weigh on commodity prices and commodity-exporting economies, while, conversely, reducing pressures on oil-importing countries. Such a scenario may provide opportunities to benefit from the diverging economic trajectories. Divergence in the paths of G3 (U.S., Europe, and Japan) monetary policy remains supportive of a long U.S. dollar bias. The recently held elections in several EM countries will create degrees of economic, political, and civil uncertainty as new leadership takes office. The newly elected, or re-elected, leaders will need to face the challenge of enacting reforms and policies to enable greater economic growth prospects.

- We anticipate EM sovereign debt to post solid returns in the medium term. We believe that setbacks, such as the one seen in September, are also to be expected. There could be selective opportunities to add to the Fund's sovereign debt positions in those countries that we believe have comfortable external positions and favorable growth prospects. However, we remain marginally cautious on domestic debt, even after EM currencies experienced broad-based weakness versus the U.S. dollar over the past year, as the macroeconomic adjustment towards higher real (inflation-adjusted) rates and lower current account deficits has not reached its full conclusion. In this regard, we will be watching policy makers closely to confirm whether they recommit to prudent policies during this adjustment process. EM corporate debt valuations do not necessarily look cheap on an outright basis, in our opinion, but still offer value relative to developed credit markets. In our view, the current environment and the prospects of further easing by the ECB and BOJ are supportive of EM corporate bonds, particularly in the BBB- and B-rated segments.

Sincerely,

John H. Gernon
President and Principal Executive Officer November 2014

*J.P. Morgan Government Bond Index   Emerging Markets Global Diversified Index tracks local currency government bonds issued by emerging markets. It is not possible to invest directly in an Index.

**Data from Bloomberg LP

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

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Investment Advisory Agreement Approval (unaudited)

Nature, Extent and Quality of Services

The Board reviewed and considered the nature and extent of the investment advisory services provided by the Adviser (as defined herein) under the advisory agreement, including portfolio management, investment research and equity and fixed income securities trading. The Board also reviewed and considered the nature and extent of the non-advisory, administrative services provided by the Adviser under the administration agreement, including accounting, clerical, bookkeeping, compliance, business management and planning, and the provision of supplies, office space and utilities at the Adviser's expense. (The advisory and administration agreements together are referred to as the "Management Agreement.") The Board also compared the nature of the services provided by the Adviser with similar services provided by non-affiliated advisers as reported to the Board by Lipper, Inc. ("Lipper").

The Board reviewed and considered the qualifications of the portfolio managers, the senior administrative managers and other key personnel of the Adviser who provide the advisory and administrative services to the Fund. The Board determined that the Adviser's portfolio managers and key personnel are well qualified by education and/or training and experience to perform the services in an efficient and professional manner. The Board concluded that the nature and extent of the advisory and administrative services provided were necessary and appropriate for the conduct of the business and investment activities of the Fund and supported its decision to approve the Management Agreement.

Performance, Fees and Expenses of the Fund

The Board reviewed the performance, fees and expenses of the Fund compared to its peers, as determined by Lipper, and to appropriate benchmarks where applicable. The Board discussed with the Adviser the performance goals and the actual results achieved in managing the Fund. When considering a fund's performance, the Board and the Adviser place emphasis on trends and longer-term returns (focusing on one-year, three-year and five-year performance as of December 31, 2013, or since inception, as applicable). When a fund underperforms its benchmark and/or its peer group average, the Board and the Adviser discuss the causes of such underperformance and, where necessary, they discuss specific changes to investment strategy or investment personnel. The Board noted that the Fund's performance was below its peer group average for the one-, three- and five-year periods. The Board discussed with the Adviser the level of the advisory and administration fees (together, the "management fee") for this Fund relative to comparable funds and/or other accounts advised by the Adviser and/or compared to its peers as determined by Lipper. In addition to the management fee, the Board also reviewed the Fund's total expense ratio. When a fund's management fee and/or its total expense ratio are higher than its peers, the Board and the Adviser discuss the reasons for this and, where appropriate, they discuss possible waivers and/or caps. The Board noted that the Fund's management fee and total expense ratio were higher than its peer group average. After discussion, the Board concluded that the Fund's (i) performance was acceptable; and (ii) management fee and total expense ratio were acceptable.

Economies of Scale

The Board considered the size and growth prospects of the Fund and how that relates to the Fund's total expense ratio and particularly the Fund's management fee rate, which does not include breakpoints. In conjunction with its review of the Adviser's profitability, the Board discussed with the Adviser how a change in assets can affect the efficiency or effectiveness of managing the Fund and whether the management fee level is appropriate relative to current and projected asset levels and/or whether the management fee structure reflects economies of scale as asset levels change. The Board considered that, with respect to closed-end funds, the assets are not likely

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Investment Advisory Agreement Approval (unaudited) (cont'd)

to grow with new sales or grow significantly as a result of capital appreciation. The Board concluded that economies of scale for the Fund were not a factor that needed to be considered at the present time.

Profitability of the Adviser and Affiliates

The Board considered information concerning the costs incurred and profits realized by the Adviser and its affiliates during the last year from their relationship with the Fund and during the last two years from their relationship with the Morgan Stanley Fund Complex and reviewed with the Adviser the cost allocation methodology used to determine the profitability of the Adviser and affiliates. The Board has determined that its review of the analysis of the Adviser's expenses and profitability supports its decision to approve the Management Agreement.

Other Benefits of the Relationship

The Board considered other benefits to the Adviser and its affiliates derived from their relationship with the Fund and other funds advised by the Adviser. These benefits may include, among other things, research received by the Adviser generated from commission dollars spent on funds' portfolio trading and fees for trading, distribution and/or shareholder servicing. The Board reviewed with the Adviser each of these arrangements and the reasonableness of the Adviser's costs relative to the services performed. The Board has determined that its review of the other benefits received by the Adviser or its affiliates supports its decision to approve the Management Agreement.

Resources of the Adviser and Historical Relationship Between the Fund and the Adviser

The Board considered whether the Adviser is financially sound and has the resources necessary to perform its obligations under the Management Agreement. The Board also reviewed and considered the historical relationship between the Fund and the Adviser, including the organizational structure of the Adviser, the policies and procedures formulated and adopted by the Adviser for managing the Fund's operations and the Board's confidence in the competence and integrity of the senior managers and key personnel of the Adviser. The Board concluded that the Adviser has the financial resources necessary to fulfill its obligations under the Management Agreement and that it is beneficial for the Fund to continue its relationship with the Adviser.

Other Factors and Current Trends

The Board considered the controls and procedures adopted and implemented by the Adviser and monitored by the Fund's Chief Compliance Officer and concluded that the conduct of business by the Adviser indicates a good faith effort on its part to adhere to high ethical standards in the conduct of the Fund's business.

General Conclusion

After considering and weighing all of the above factors, the Board concluded that it would be in the best interest of the Fund and its shareholders to approve renewal of the Management Agreement for another year. In reaching this conclusion the Board did not give particular weight to any single factor referenced above. The Board considered these factors over the course of numerous meetings, some of which were in executive session with only the independent Board members and their counsel present. It is possible that individual Board members may have weighed these factors differently in reaching their individual decisions to approve the Management Agreement.

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Portfolio of Investments

(Showing Percentage of Total Value of Investments)

		Face Amount (000)	Value (000)
FIXED INCOME SECURITIES (94.6%)			
Brazil (8.9%)			
Sovereign (8.9%)			
Brazil Notas do Tesouro Nacional, Series F, 10.00%, 1/1/17 - 1/1/25	BRL	321,900	$ 119,767
			119,767
Chile (0.6%)			
Sovereign (0.6%)			
Chile Government International Bond, 5.50%, 8/5/20	CLP	4,665,000	8,569
Colombia (4.9%)			
Sovereign (4.9%)			
Colombia Government International Bond, 7.75%, 4/14/21	COP	29,000,000	15,445
9.85%, 6/28/27		46,000,000	28,722
12.00%, 10/22/15		11,000,000	5,690
Financiera de Desarrollo Territorial SA Findeter, 7.88%, 8/12/24 (a)		31,492,000	15,657
			65,514
Hungary (5.0%)			
Sovereign (5.0%)			
Hungary Government Bond, 6.75%, 2/24/17	HUF	3,500,000	15,595
7.50%, 11/12/20		10,480,000	52,094
			67,689
Indonesia (5.9%)			
Sovereign (5.9%)			
Barclays Bank PLC, Indonesia Government Bonds, Credit Linked Notes, 10.00%, 7/17/17 (a)(b)	IDR	360,000,000	31,501
Credit Suisse, Indonesia Government Bonds, Credit Linked Notes,		154,683,530	13,535

		Face Amount (000)	Value (000)
10.00%, 7/17/17			
Deutsche Bank AG, Indonesia Government Bond, Credit Linked Notes, 11.00%, 12/15/20 (a)(b)		60,000,000	5,681
JPMorgan Chase Bank, London, Indonesia Government Bonds, Credit Linked Notes, 8.25%, 7/17/21	IDR	135,000,000	$ 11,348
10.00%, 7/19/17 (b)		192,525,000	16,847
			78,912
Malaysia (8.8%)			
Sovereign (8.8%)			
Malaysia Government Bond, 3.48%, 3/15/23	MYR	224,480	66,786
4.18%, 7/15/24		161,900	50,513
			117,299
Mexico (15.1%)			
Sovereign (15.1%)			
Bonos de Tesoreria, 5.70%, 8/12/24	MXN	44,037	15,011
Mexican Bonos, 6.50%, 6/10/21		1,181,685	92,687
7.50%, 6/3/27		72,585	5,969
8.50%, 5/31/29		290,400	25,707
Petroleos Mexicanos (Units), 7.65%, 11/24/21 (a)(c)		791,300	62,942
			202,316
Peru (2.7%)			
Sovereign (2.7%)			
Peru Government Bond, 5.70%, 8/12/24	PEN	66,501	22,669
Peruvian Government International Bond (Units), 8.20%, 8/12/26 (c)		32,110	13,487
			36,156
Philippines (1.1%)			
Sovereign (1.1%)			
Philippine Government International Bond, 4.95%, 1/15/21	PHP	648,000	15,025
Poland (10.4%)			
Sovereign (10.4%)			
Poland Government Bond, 5.25%, 10/25/20	PLN	314,000	109,647
5.50%, 10/25/19		86,947	30,052
			139,699

The accompanying notes are an integral part of the financial statements.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

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Portfolio of Investments (cont'd)

(Showing Percentage of Total Value of Investments)

		Face Amount (000)		Value (000)
Romania (1.2%)				
Sovereign (1.2%)				
Romania Government Bond, 5.90%, 7/26/17	RON	53,290	$	16,597
Russia (8.1%)				
Sovereign (8.1%)				
Russian Federal Bond OFZ, 7.05%, 1/19/28	RUB	1,775,000		33,077
8.15%, 2/3/27		2,171,800		44,764
Russian Foreign Bond Eurobond, 7.85%, 3/10/18		290,000		6,348
7.85%, 3/10/18 (a)		1,095,000		23,970
				108,159
South Africa (9.5%)				
Sovereign (9.5%)				
Eskom Holdings SOC Ltd., 5.75%, 1/26/21	$	47,400		49,187
South Africa Government Bond, 6.75%, 3/31/21	ZAR	766,200		67,106
7.25%, 1/15/20		114,524		10,380
				126,673
Thailand (0.9%)				
Sovereign (0.9%)				
Thailand Government Bond, 3.63%, 6/16/23	THB	380,000		12,146
Turkey (8.5%)				
Corporate Bond (3.5%)				
Turkiye Garanti Bankasi AS, 7.38%, 3/7/18 (a)	TRY	111,480		46,468
Sovereign (5.0%)				
Turkey Government Bond, 10.50%, 1/15/20		135,825		66,976
				113,444
Venezuela (3.0%)				
Sovereign (3.0%)				
Petroleos de Venezuela SA, 8.50%, 11/2/17	$	53,600		40,731
				1,268,696

	Shares	Value (000)
TOTAL FIXED INCOME SECURITIES (Cost $1,378,198)		
SHORT-TERM INVESTMENT (5.4%)		
Investment Company (5.4%)		
Morgan Stanley Institutional Liquidity Funds Money Market Portfolio Institutional Class (See Note F) (Cost $71,792)	71,792,394	$ 71,792
TOTAL INVESTMENTS (100.0%) (Cost $1,449,990)		1,340,488
LIABILITIES IN EXCESS OF OTHER ASSETS		(386,020)
NET ASSETS		$ 954,468

(a) 144A security Certain conditions for public sale may exist. Unless otherwise noted, these securities are deemed to be liquid.

(b) Variable/Floating Rate Security Interest rate changes on these instruments are based on changes in a designated base rate. The rates shown are those in effect on October 31, 2014.

(c) Consists of one or more classes of securities traded together as a unit.

OFZ Obilgatsyi Federal'novo Zaima (Russian Federal Loan Obligation)

BRL Brazilian Real

CLP Chilean Peso

COP Colombian Peso

HUF Hungarian Forint

IDR Indonesian Rupiah

MXN Mexican Peso

MYR Malaysian Ringgit

PEN Peruvian Nuevo Sol

PHP Philippine Peso

PLN Polish Zloty

RON Romanian New Leu

RUB Russian Ruble

THB	Thai Baht
TRY	Turkish Lira
ZAR	South African Rand

The accompanying notes are an integral part of the financial statements.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

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Portfolio of Investments (cont'd)

Portfolio Composition

Classification	Percentage of Total Investments
Sovereign	91.1%
Short-Term Investments	5.4
Other*	3.5
Total Investments	100.0%

* Industries and/or investment types representing less than 5% of total investments.

The accompanying notes are an integral part of the financial statements.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2014

Financial Statements

Statement of Assets and Liabilities	**October 31, 2014 (000)**
Assets:	
Investments in Securities of Unaffiliated Issuers, at Value (Cost $1,378,198)	$ 1,268,696
Investment in Security of Affiliated Issuer, at Value (Cost $71,792)	71,792
Total Investments in Securities, at Value (Cost $1,449,990)	1,340,488
Foreign Currency, at Value (Cost $6,457)	6,376
Receivable for Investments Sold	60,460
Interest Receivable	24,990
Receivable for Lehman Brothers Closed Reverse Repurchase Transactions	2,014
Receivable from Affiliate	1
Other Assets	146
Total Assets	1,434,475
Liabilities:	
Payable for Line of Credit	400,048
Payable for Investments Purchased	67,885
Bank Overdraft	9,781
Payable for Advisory Fees	1,148
Repurchase of Shares	828
Payable for Custodian Fees	134
Payable for Administration Fees	92
Payable for Professional Fees	13
Payable for Stockholder Servicing Agent Fees	1
Other Liabilities	77
Total Liabilities	480,007
Net Assets	
Applicable to 69,815,207 Issued and Outstanding $0.01 Par Value Shares (100,000,000 Shares Authorized)	$ 954,468
Net Asset Value Per Share	$ 13.67
Net Assets Consist of:	
Common Stock	$ 698
Paid-in-Capital	1,148,402
Distributions in Excess of Net Investment Income	(39,331)
Accumulated Net Realized Loss	(44,852)
Unrealized Appreciation (Depreciation) on:	
Investments	(109,502)
Foreign Currency Translations	(947)
Net Assets	$ 954,468

The accompanying notes are an integral part of the financial statements.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2014

Financial Statements (cont'd)

Statement of Operations	**Year Ended October 31, 2014 (000)**
Investment Income:	
Interest from Securities of Unaffiliated Issuers	$ 88,978
Dividends from Security of Affiliated Issuer (Note F)	14
Total Investment Income	88,992
Expenses:	
Advisory Fees (Note B)	14,476
Administration Fees (Note C)	1,158
Custodian Fees (Note D)	757
Administrative Fees on Line of Credit (Note G)	221
Stockholder Reporting Expenses	174
Professional Fees	133
Directors' Fees and Expenses	25
Stockholder Servicing Agent Fees	9
Other Expenses	208
Expenses Before Non Operating Expenses	17,161
Interest Expense on Line of Credit (Note G)	5,907
Total Expenses	23,068
Rebate from Morgan Stanley Affiliate (Note F)	(35)
Net Expenses	23,033
Net Investment Income	65,959
Realized Gain (Loss):	
Investments Sold	(167,397)
Foreign Currency Forward Exchange Contracts	793
Foreign Currency Transactions	(6,252)
Futures Contracts	913
Net Realized Loss	(171,943)
Change in Unrealized Appreciation (Depreciation):	
Investments	23,790
Foreign Currency Translations	(778)
Futures Contracts	937
Net Change in Unrealized Appreciation (Depreciation)	23,949
Net Realized Loss and Change in Unrealized Appreciation (Depreciation)	(147,994)
Net Decrease in Net Assets Resulting from Operations	$ (82,035)

The accompanying notes are an integral part of the financial statements.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

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Financial Statements (cont'd)

Statements of Changes in Net Assets	Year Ended October 31, 2014 (000)	Year Ended October 31, 2013 (000)
Increase (Decrease) in Net Assets		
Operations:		
Net Investment Income	$ 65,959	$ 85,581
Net Realized Gain (Loss)	(171,943)	11,859
Net Change in Unrealized Appreciation (Depreciation)	23,949	(120,115)
Net Decrease in Net Assets Resulting from Operations	(82,035)	(22,675)
Distributions from and/or in Excess of:		
Net Investment Income	(35,096)	(72,155)
Net Realized Gain	(36,014)	
Paid-in-Capital	(45,611)	
Total Distributions	(116,721)	(72,155)
Capital Share Transactions:		
Repurchase of Shares (1,450,197 and 1,166,132 shares)	(18,795)	(16,252)
Net Decrease in Net Assets Resulting from Capital Share Transactions	(18,795)	(16,252)
Total Decrease	(217,551)	(111,082)
Net Assets:		
Beginning of Period	1,172,019	1,283,101
End of Period (Including Undistributed (Distributions in Excess of) Net Investment Income of $(39,331) and $14,629)	$ 954,468	$ 1,172,019

The accompanying notes are an integral part of the financial statements.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

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Financial Statements (cont'd)

Statement of Cash Flows	**Year Ended October 31, 2014 (000)**
Cash Flows From Operating Activities:	
Proceeds from Sales and Maturities of Long-Term Investments	$ 1,579,503
Purchase of Long-Term Investments	(1,419,886)
Net (Increase) Decrease in Short-Term Investments	(57,652)
Net (Increase) Decrease in Foreign Currency Holdings	1,130
Net Realized Gain (Loss) for Foreign Currency Transactions, Foreign Currency Forward Exchange Contracts and Futures Contracts	(4,546)
Net Investment Income	65,959
Adjustments to Reconcile Net Investment Income to Net Cash Provided for (Used by) Operating Activities:	
Net (Increase) Decrease in Receivables Related to Operations	(42,112)
Net (Increase) Decrease in Payables Related to Operations	(285)
Accretion/Amortization of Discounts and Premiums	3,304
Net Cash Provided for (Used by) Operating Activities	125,415
Cash Flows From Financing Activities:	
Cash Paid for Line of Credit	
Cash Paid for Repurchase of Shares	(18,475)
Cash Distribution Paid	(116,721)
Net Cash Provided for (Used by) Financing Activities	(135,196)
Net Increase (Decrease) in Cash	(9,781)
Cash at Beginning of Period	
Cash at End of Period	$ (9,781)
Supplemental Disclosure of Cash Flow Information:	
Interest Paid on Line of Credit during the Period	$ 6,006

The accompanying notes are an integral part of the financial statements.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2014

Financial Highlights

Selected Per Share Data and Ratios

	Year Ended October 31,				
	2014	**2013**	**2012**	**2011**	**2010**
Net Asset Value, Beginning of Period	$ 16.45	$ 17.71	$ 17.34	$ 18.58	$ 16.17
Net Investment Income†	0.94	1.19	1.32	1.52	1.46
Net Realized and Unrealized Gain (Loss)	(2.11)	(1.48)	0.20	(1.56)	2.15
Total from Investment Operations	(1.17)	(0.29)	1.52	(0.04)	3.61
Distributions from and/or in excess of:					
Net Investment Income	(0.49)	(1.00)	(1.15)	(1.20)	(1.20)
Net Realized Gain	(0.51)				
Paid-in-Capital	(0.65)				
Total Distributions	(1.65)	(1.00)	(1.15)	(1.20)	(1.20)
Anti-Dilutive Effect of Share Repurchase Program	0.04	0.03			
Net Asset Value, End of Period	$ 13.67	$ 16.45	$ 17.71	$ 17.34	$ 18.58
Per Share Market Value, End of Period	$ 11.96	$ 14.35	$ 16.47	$ 15.87	$ 17.29

TOTAL INVESTMENT RETURN:					
Market Value	(5.52)%	(7.21)%	11.38%	(1.34)%	35.60%
Net Asset Value(1)	(5.80)%	(1.08)%	9.61%	0.32%	23.83%
RATIOS, SUPPLEMENTAL DATA:					
Net Assets, End of Period (Thousands)	$954,468	$1,172,019	$1,283,101	$1,255,618	$1,345,669
Ratio of Expenses to Average Net Assets	2.20%+	2.10%+	2.16%+	2.07%+	2.28%+
Ratio of Expenses to Average Net Assets Excluding Non Operating Expenses	1.63%+	1.59%+	1.59%+	1.55%+	1.62%+
Ratio of Net Investment Income to Average Net Assets	6.30%+	6.72%+	7.63%+	8.36%+	8.61%+
Ratio of Rebate from Morgan Stanley Affiliates to Average Net Assets	0.00%§	0.00%§	0.00%§	0.00%§	0.00%§
Portfolio Turnover Rate	107%	75%	64%	100%	42%

(1) Total investment return based on net asset value per share reflects the effects of changes in net asset value on the performance of the Fund during each period, and assumes dividends and distributions, if any, were reinvested. This percentage is not an indication of the performance of a stockholder's investment in the Fund based on market value due to differences between the market price of the stock and the net asset value per share of the Fund.

† Per share amount is based on average shares outstanding.

+ The Ratios of Expenses and Net Investment Income reflect the rebate of certain Fund expenses in connection with the investments in Morgan Stanley affiliates during the period. The effect of the rebate on the ratios is disclosed in the above table as "Ratio of Rebate from Morgan Stanley Affiliates to Average Net

Assets."

§ Amount is less than 0.005%.

The accompanying notes are an integral part of the financial statements.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2014

Notes to Financial Statements

The Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. (the "Fund") was incorporated in Maryland on January 25, 2007 and is registered as a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the "Act"). The Fund's primary investment objective is to seek a high level of current income, with a secondary investment objective of long-term capital appreciation. The Fund seeks to achieve its investment objectives by investing, under normal circumstances, at least 80% of its managed assets in emerging markets domestic debt. To the extent the Fund invests in derivative instruments that Morgan Stanley Investment Management Inc. (the "Adviser"), believes have economic characteristics similar to such securities, such investments will be counted for purposes of the Fund's policy described in the previous sentence. To the extent the Fund makes such investments, the Fund will be subject to the risk of such derivative instruments as described herein.

A. Significant Accounting Policies: The following significant accounting policies are in conformity with U.S. generally accepted accounting principles ("GAAP"). Such policies are consistently followed by the Fund in the preparation of its financial statements. GAAP may require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results may differ from those estimates.

1. Security Valuation: (1) Bonds and other fixed income securities may be valued according to the broadest and most representative market. In addition, bonds and other fixed income securities may be valued on the basis of prices provided by a pricing service. The prices provided by a pricing service take into account broker-dealer market price quotations for institutional size trading in similar groups of securities, security quality, maturity, coupon and other security characteristics as well as any developments related to the specific securities; (2) futures are valued at the latest price published by the commodities exchange on which

they trade; (3) when market quotations are not readily available, including circumstances under which the Adviser determines that the closing price, last sale price or the mean between the last reported bid and asked prices are not reflective of a security's market value, portfolio securities are valued at their fair value as determined in good faith under procedures established by and under the general supervision of the Fund's Board of Directors (the "Directors"). Occasionally, developments affecting the closing prices of securities and other assets may occur between the times at which valuations of such securities are determined (that is, close of the foreign market on which the securities trade) and the close of business of the New York Stock Exchange ("NYSE"). If developments occur during such periods that are expected to materially affect the value of such securities, such valuations may be adjusted to reflect the estimated fair value of such securities as of the close of the NYSE, as determined in good faith by the Directors or by the Adviser using a pricing service and/or procedures approved by the Directors; (4) quotations of foreign portfolio securities, other assets and liabilities and forward contracts stated in foreign currency are translated into U.S. dollar equivalents at the prevailing market rates prior to the close of the NYSE; (5) investments in mutual funds, including the Morgan Stanley Institutional Liquidity Funds, are valued at the net asset value as of the close of each business day; and (6) short-term debt securities with remaining maturities of 60 days or less at the time of purchase may be valued at amortized cost, unless the Adviser determines such valuation does not reflect the securities' market value, in which case these securities will be valued at their fair market value determined by the Adviser.

Under procedures approved by the Directors, the Fund's Adviser has formed a Valuation Committee. The Valuation Committee provides administration and oversight of the

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

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Notes to Financial Statements (cont'd)

Fund's valuation policies and procedures, which are reviewed at least annually by the Directors. These procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

The Fund has procedures to determine the fair value of securities and other financial instruments for which market prices are not readily available. Under these procedures, the Valuation Committee convenes on a regular and ad hoc basis to review such securities and considers a number of factors, including valuation methodologies and significant unobservable valuation inputs, when arriving at fair value. The Valuation Committee may employ a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The Valuation Committee employs various methods for calibrating these valuation approaches including a regular review of valuation methodologies, key inputs and assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

2. Fair Value Measurement: Financial Accounting Standards Board ("FASB") Accounting Standards Codification™ ("ASC") 820, "Fair Value Measurement" ("ASC 820"), defines fair value as the value that the Fund would receive to sell an investment or pay to transfer a

liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market the most advantageous market for the investment or liability. ASC 820 establishes a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in valuing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in valuing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the value of the Fund's investments. The inputs are summarized in the three broad levels listed below.

- Level 1 unadjusted quoted prices in active markets for identical investments

- Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

- Level 3 significant unobservable inputs including the Fund's own assumptions in determining the fair value of investments. Factors considered in making this determination may include, but are not limited to, information obtained by contacting the issuer, analysts, or the appropriate stock exchange (for exchange-traded securities), analysis of the issuer's financial statements or other available documents and, if necessary, available information concerning other securities in similar circumstances

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities and the determination of the

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2014

Notes to Financial Statements (cont'd)

significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each security.

The following is a summary of the inputs used to value the Fund's investments as of October 31, 2014.

Investment Type	**Level 1 Unadjusted quoted prices (000)**	**Level 2 Other significant observable inputs (000)**	**Level 3 Significant unobservable inputs (000)**	**Total (000)**
Assets:				
Fixed Income Securities				
Corporate Bond	$	$ 46,468	$	$ 46,468
Sovereign		1,222,228		1,222,228
Total Fixed Income Securities		**1,268,696**		**1,268,696**
Short-Term Investment				
Investment Company	71,792			71,792
Total Assets	**$ 71,792**	**$1,268,696**	**$**	**$1,340,488**

Transfers between investment levels may occur as the markets fluctuate and/or the availability of data used in an investment's valuation changes. The Fund recognizes transfers between the levels as of the end of the period. As of October 31, 2014, the Fund did not have any investments transfer between investment levels.

3. Foreign Currency Translation and Foreign Investments: The books and records of the Fund are maintained in U.S. dollars. Foreign currency amounts are translated into U.S. dollars as follows:

investments, other assets and liabilities at the prevailing rate of exchange on the valuation date;

investment transactions and investment income at the prevailing rates of exchange on the dates of such transactions.

Although the net assets of the Fund are presented at the foreign exchange rates and market values at the close of the period, the Fund does not isolate that portion of the results of operations arising as a result of changes in the foreign exchange rates from the fluctuations arising from changes in the market prices of securities held at period end. Similarly, the Fund does not isolate the effect of changes in foreign exchange rates from the fluctuations arising from changes in the market prices of securities sold during the period. Accordingly, realized and unrealized foreign currency gains (losses) on investments in securities are included in the reported net realized and unrealized gains (losses) on investment transactions and balances. However, pursuant to U.S. Federal income tax regulations, gains and losses from certain foreign currency transactions and the foreign currency portion of gains and losses realized on sales and maturities of foreign denominated debt securities are treated as ordinary income for U.S. Federal income tax purposes.

Net realized gains (losses) on foreign currency transactions represent net foreign exchange gains (losses) from foreign currency forward exchange contracts, disposition of foreign currencies, currency gains (losses) realized between the trade and settlement dates on securities transactions, and the difference between the amount of investment income and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent amounts actually received or paid. Net unrealized currency gains (losses) from valuing foreign currency denominated assets and liabilities at period end exchange rates are reflected as a component of unrealized appreciation (depreciation) on investments and foreign currency translations in the Statement of Assets and Liabilities. The change in unrealized currency gains (losses) on foreign currency translations for the period is reflected in the Statement of Operations.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

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Notes to Financial Statements (cont'd)

A significant portion of the Fund's net assets consist of securities of issuers located in emerging markets, which are denominated in foreign currencies. Such securities may be concentrated in a limited number of countries and regions and may vary throughout the year. Changes in currency exchange rates will affect the value of and investment income from foreign currency denominated securities. Emerging market securities are often subject to greater price volatility, limited capitalization and liquidity, and higher rates of inflation than U.S. securities. In addition, emerging market issuers may be subject to substantial governmental involvement in the economy and greater social, economic and political uncertainty.

4. Structured Investments: The Fund invested a portion of its assets in structured investments. A structured investment is a derivative security designed to offer a return linked to a particular underlying security, currency, commodity or market. Structured investments may come in various forms including notes (such as exchange-traded notes), warrants and options to purchase securities. The Fund will typically use structured investments to gain exposure to a permitted underlying security, currency, commodity or market when direct access to a market is limited or inefficient from a tax or cost standpoint. There can be no assurance that structured investments will trade at the same price or have the same value as the underlying security, currency, commodity or market. Investments in structured investments involve risks including issuer risk, counterparty risk and market risk. Holders of structured investments bear risks of the underlying investment and are subject to issuer or counterparty risk because the Fund is relying on the creditworthiness of such issuer or counterparty and has no rights with respect to the underlying investment. Certain structured investments may be thinly traded or have a limited trading market and may have the effect of increasing the Fund's illiquidity to the

extent that the Fund, at a particular time, may be unable to find qualified buyers for these securities.

5. Derivatives: The Fund may, but is not required to, use derivative instruments for a variety of purposes, including hedging, risk management, portfolio management or to earn income. Derivatives are financial instruments whose value is based, in part, on the value of an underlying asset, interest rate, index or financial instrument. Prevailing interest rates and volatility levels, among other things, also affect the value of derivative instruments. A derivative instrument often has risks similar to its underlying asset and may have additional risks, including imperfect correlation between the value of the derivative and the underlying asset, risks of default by the counterparty to certain transactions, magnification of losses incurred due to changes in the market value of the securities, instruments, indices or interest rates to which the derivative instrument relates, risks that the transactions may not be liquid and risks arising from margin requirements. The use of derivatives involves risks that are different from, and possibly greater than, the risks associated with other portfolio investments. Derivatives may involve the use of highly specialized instruments that require investment techniques and risk analyses different from those associated with other portfolio investments. All of the Fund's holdings, including derivative instruments, are marked-to-market each day with the change in value reflected in unrealized appreciation (depreciation). Upon disposition, a realized gain or loss is recognized.

Certain derivative transactions may give rise to a form of leverage. Leverage magnifies the potential for gain and the risk of loss. Leverage associated with derivative transactions may cause the Fund to liquidate portfolio positions when it may not be advantageous to do so to satisfy its obligations or to meet earmarking or segregation requirements, pursuant to applicable Securities and Exchange

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

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Notes to Financial Statements (cont'd)

Commission rules and regulations, or may cause the Fund to be more volatile than if the Fund had not been leveraged. Although the Adviser seeks to use derivatives to further the Fund's investment objectives, there is no assurance that the use of derivatives will achieve this result.

Following is a description of the derivative instruments and techniques that the Fund used during the period and their associated risks:

Futures: A futures contract is a standardized, exchange-traded agreement to buy or sell a specific quantity of an underlying asset, reference rate or index at a specific price at a specific future time. The value of a futures contract tends to increase and decrease in tandem with the value of the underlying instrument. Depending on the terms of the particular contract, futures contracts are settled through either physical delivery of the underlying instrument on the settlement date or by payment of a cash settlement amount on the settlement date. During the period the futures contract is open, payments are received from or made to the broker based upon changes in the value of the contract (the variation margin). A decision as to whether, when and how to use futures contracts involves the exercise of skill and judgment and even a well-conceived futures transaction may be unsuccessful because of market behavior or unexpected events. In addition to the derivatives risks discussed above, the prices of futures contracts can be highly volatile, using futures contracts can lower total return, and the potential loss from futures contracts can exceed the Fund's initial investment in such contracts. No assurance can be given that a liquid market will exist for any particular futures contract at any particular time. There is also the risk of loss by the Fund of margin deposits in the event of bankruptcy of a broker with whom the Fund has open positions in the futures contract. As of October 31, 2014, the Fund did not have any open futures contracts.

Foreign Currency Forward Exchange Contracts: In connection with its investments in foreign securities, the Fund also entered into contracts with banks, brokers or dealers to purchase or sell securities or foreign currencies at a future date. A foreign currency forward exchange contract ("currency contract") is a negotiated agreement between the contracting parties to exchange a specified amount of currency at a specified future time at a specified rate. The rate can be higher or lower than the spot rate between the currencies that are the subject of the contract. Currency contracts may be used to protect against uncertainty in the level of future foreign currency exchange rates or to gain or modify exposure to a particular currency. To the extent hedged by the use of currency contracts, the precise matching of the currency contract amounts and the value of the securities involved will not generally be possible because the future value of such securities in foreign currencies will change as a consequence of market movements in the value of those securities between the date on which the contract is entered into and the date it matures. Furthermore, such transactions reduce or preclude the opportunity for gain if the value of the currency should move in the direction opposite to the position taken. There is additional risk to the extent that currency contracts create exposure to currencies in which the Fund's securities are not denominated. Unanticipated changes in currency prices may result in poorer overall performance for the Fund than if it had not entered into such contracts. The use of currency contracts involves the risk of loss from the insolvency or bankruptcy of the counterparty to the contract or the failure of the counterparty to make payments or otherwise comply with the terms of the contract. A currency contract is marked-to-market daily and the change in market value is recorded by the Fund as unrealized gain or loss. The Fund records realized gains (losses) when the currency contract is closed equal to the

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2014

Notes to Financial Statements (cont'd)

difference between the value of the currency contract at the time it was opened and the value at the time it was closed. As of October 31, 2014, the Fund did not have any open foreign currency forward exchange contracts.

FASB ASC 815, "Derivatives and Hedging" ("ASC 815"), is intended to improve financial reporting about derivative instruments by requiring enhanced disclosures to enable investors to better understand how and why the Fund uses derivative instruments, how these derivative instruments are accounted for and their effects on the Fund's financial position and results of operations.

The following tables set forth by primary risk exposure the Fund's realized gains (losses) and change in unrealized appreciation (depreciation) by type of derivative contract for the year ended October 31, 2014 in accordance with ASC 815.

Realized Gain (Loss)

Primary Risk Exposure	**Derivative Type**	**Value (000)**
Currency Risk	Foreign Currency Forward Exchange Contracts	$ 793
Interest Rate Risk	Futures Contracts	913
Total		$ 1,706

Change in Unrealized Appreciation (Depreciation)

Primary Risk Exposure	**Derivative Type**	**Value (000)**
Interest Rate Risk	Futures Contracts	$ 937

For the year ended October 31, 2014, the approximate average monthly amount outstanding for each derivative type is as follows:

Foreign Currency Forward Exchange Contracts:

Average monthly principal amount	$ 27,165,000

Futures Contracts:

Average monthly original value	$ 29,268,000

6. Indemnifications: The Fund enters into contracts that contain a variety of indemnifications. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

7. Other: Security transactions are accounted for on the date the securities are purchased or sold. Realized gains (losses) on the sale of investment securities are determined on the specific identified cost basis. Interest income is recognized on the accrual basis except where collection is in doubt and is recorded net of foreign withholding tax. Dividend income and distributions are recorded on the ex-dividend date (except for certain dividends which may be recorded as soon as the Fund is informed of such dividends) net of applicable withholding taxes.

B. Advisory Fees: The Adviser, a wholly-owned subsidiary of Morgan Stanley, provides the Fund with advisory services under the terms of an Investment Advisory Agreement, calculated weekly and payable monthly, at an annual rate of 1.00% of the Fund's average weekly managed assets.

C. Administration Fees: The Adviser also serves as Administrator to the Fund and provides administrative services pursuant to an Administration Agreement for an annual fee, accrued daily and paid monthly, of 0.08% of the Fund's average weekly managed assets. Under a Sub-Administration Agreement between the Administrator and State Street Bank and Trust Company ("State Street"), State Street provides certain administrative services to the Fund. For such services, the Administrator pays State Street a portion of the fee the Administrator receives from the Fund.

D. Custodian Fees: State Street (the "Custodian") and its affiliates serve as Custodian for the Fund. The Custodian holds cash, securities, and other assets of the Fund as required by the Act. Custody fees are payable monthly based on assets held in custody, investment purchases and sales activity and account maintenance fees, plus reimbursement for certain out-of-pocket expenses.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

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Notes to Financial Statements (cont'd)

E. Federal Income Taxes: It is the Fund's intention to continue to qualify as a regulated investment company and distribute all of its taxable income. Accordingly, no provision for Federal income taxes is required in the financial statements.

The Fund may be subject to taxes imposed by countries in which it invests. Such taxes are generally based on income and/or capital gains earned or repatriated. Taxes are accrued and applied to net investment income, net realized gains and net unrealized appreciation as such income and/or gains are earned. Taxes may also be based on transactions in foreign currency and are accrued based on the value of investments denominated in such currency.

FASB ASC 740-10, *Income Taxes Overall*, sets forth a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. Management has concluded there are no significant uncertain tax positions that would require recognition in the financial statements. If applicable, the Fund recognizes interest accrued related to unrecognized tax benefits in "Interest Expense" and penalties in "Other Expenses" in the Statement of Operations. The Fund files tax returns with the U.S. Internal Revenue Service, New York and various states. Each of the tax years in the four-year period ended October 31, 2014, remains subject to examination by taxing authorities.

The tax character of distributions paid may differ from the character of distributions shown in the Statements of Changes in Net Assets due to short-term capital gains being treated as ordinary income for tax purposes. The tax character of distributions paid during fiscal years 2014 and 2013 was as follows:

2014 Distributions Paid From:			2013 Distributions Paid From:	
Ordinary Income (000)	Long-term Capital Gain (000)	Paid-in-Capital (000)	Ordinary Income (000)	Long-term Capital Gain (000)
$ 35,096	$ 36,014			