



CRISIL FUND INSIGHTS

Monthly funds newsletter from CRISIL Research

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Investment thoughts

Be tactical to maximise returns from income funds

Poor entry-exit timing and a wrong fund choice can significantly reduce investors' returns

CRISIL's analysis of income funds over the past five years reveals that it is important to choose the right fund as there is a vast difference in returns between the top and bottom performers. Superior returns have been generated by fund managers who have timed market cycles well by tactically managing their portfolios. While investing in long-term income funds, investors should not only assess the market situation (interest rates should be heading southwards) but also choose funds with a consistent track record.

Performance

An analysis of income funds' performance across market cycles reveals that during the calendar years 2002, 2008 and 2012 (when the interest rates declined), the category returned 16%, 15% and 11%, respectively. Returns were high only as long as the downward interest rate cycle lasted and returns over longer time frames of three and five years were much lower. Another observation is that the difference between the best performing and worst performing schemes in the category is significant (see Table).

Thus, investors opting for income funds need to time the market as returns from income category are generated during specific periods (the downward movement in yields) and choose funds appropriately while investing.

Active fund management is crucial

Akin to the equity market, the debt market in India too experiences bull and bear cycles wherein the interest rates fluctuate or move in response to the domestic and global macro-economic environment. Since income funds invest in debt securities of longer tenure, the performance of long-term income category is cyclical in nature and depends upon the prevailing interest rate.

Over the past five years, the top performing funds have dynamically managed the maturity ranging from 15 years to even less than a year and altered their portfolio constituents to suit the market situation. For instance, funds that moved into shorter maturity papers and cash equivalents, during the global financial crisis, when the government bond (G-Sec) yields moved up and increased their allocation to long-term G-Sec papers when the yields fell subsequently managed to generate alpha (higher returns). Even during the period of rising interest rates, top performing funds were those which captured the downward movement in 10-year G-Sec yield during specific periods, i.e. around April-May 2009, April-June 2010 and November-December 2011. Therefore, returns from the income category depend upon the ability of the fund manager to tactically manage the duration of the portfolio in response to the movement in the 10-year G-Sec yield. Funds which have aggressively managed duration and increased exposure to G-Sec since March 2012 have delivered higher returns than peers. Over the past five years, many funds have been able to get their tactical strategy right, albeit at different points in time. Hence, consistency in generating excess returns over peers and the benchmark is crucial while choosing funds for investment.

Apart from duration (maturity) management, portfolio allocation (investment in non-convertible debentures and bonds over G-Sec, exposure to shorter-term instruments) has limited the downside in a rising interest rate scenario as well as differentiated the funds' performance. When the short-term rates were over 10% in early 2011, top performing funds increased allocation to short-term instruments such as certificates of deposit (CDs). With the intent to generate higher returns in a rising interest rate scenario, funds also increased exposure to papers other than top rated holdings (AAA/A1+). The average exposure to AA rated papers was 14.7% in 2011 compared to 7% in the previous three-year period (2008-2010).

Thus, the performance of income funds depends upon the fund manager's ability to dynamically manage the duration of the portfolio and capture the spreads (gap between yields of fixed income securities).

Summing up

Over the past five years, fund managers who have taken the right tactical calls and captured the decline in yields successfully have led the category. Thus, investors need to select funds with a consistent track record, superior risk-adjusted performance and dynamic portfolio management. Investors can also refer to the CRISIL Mutual Fund Rankings for taking informed investment decisions. These rankings are freely available on <http://crisil.com/capital-markets/crisil-mf-ranking-list.html>

Table : Long Term Income Funds - Performance (%)

Calendar Year	Max	Min	Average	Median	CRISIL
					Composite Bond Fund Index
2002	18.27	12.87	16.26	16.21	NA
2003	9.42	6.09	7.86	7.99	8.12
2004	2.28	-1.27	0.23	-0.02	-0.33
2005	11.51	2.65	5.08	4.35	4.75
2006	8.42	2.05	4.73	4.54	3.93
2007	12.57	2.70	7.42	7.89	6.96
2008	29.95	-4.12	14.98	16.51	9.06
2009	9.31	-8.71	0.09	-0.09	3.50
2010	7.58	2.79	4.73	4.76	4.96
2011	11.58	5.79	8.06	8.07	6.90
2012	12.93	8.25	10.53	10.43	9.38
2013 (YTD)*	9.08	5.19	7.12	7.32	6.84

* till June 18
Long Term Income funds as per CRISIL Mutual Fund Ranking for the quarter ended March 2013.
Source: CRISIL Mutual Fund Database.

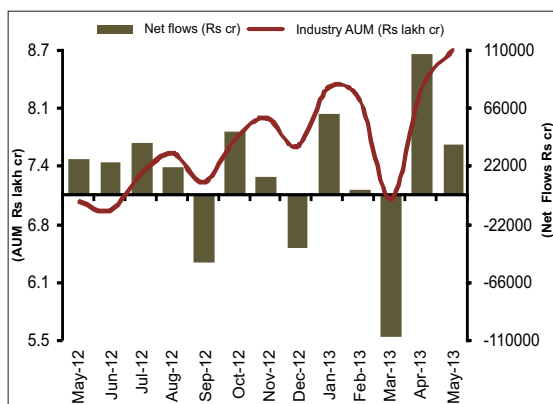
Market - Overview

Indices	May 31, 2013	April 30, 2013	Absolute Change	% Change
CNX Nifty	5986	5930	56	0.94
S&P BSE Sensex	19760	19504	256	1.31

Indicators	May 31, 2013	April 30, 2013
10 Yr Gsec	7.44%	7.73%
Monthly WPI Inflation	4.70% (May 2013)	4.89% (April 2013)

- The Indian equity market (CNX Nifty) gained almost 1% in May tracking positive global and domestic sentiments.
- The market turned optimistic about global economic recovery following strong economic data from the US and Europe coupled with signs of more monetary policy easing from the European Central Bank (ECB) and Bank of Japan.
- In India, markets started on a positive note after the Reserve Bank of India (RBI) reduced repo rate by 25 bps to 7.25% during its annual policy review on May 3, the third such cut by the central bank in 2013.
- Encouraging domestic data including industrial growth rising to a five-month high of 2.5% in March and a decline in Wholesale Price Index (WPI) inflation rate for April to 4.89% (lowest since November 2009) supported the rise.
- Robust net buying by foreign institutional investors (FIIs) also boosted indices. FIIs were net buyers to the tune of Rs 20,678 cr in May 2013 compared to net purchases of Rs 6,407 cr in April.
- Gains were capped as hopes of rate cuts dimmed following the RBI Governor's hawkish comments on inflation and the current account deficit.
- Trade deficit widening to \$17.8 bn in April 2013 from \$10.3 bn in March 2013 and FY13 domestic economic growth falling to a 10-year low of 5% also dragged down markets.
- Sentiments were further dented after the US Federal Reserve indicated that it may examine the possibility of scaling back its quantitative-easing programme if the recovery in the US economy sustains.
- Sectoral indices ended mixed for the month. CNX IT emerged as the top gainer, up 7.02% on positive economic data from the US, rupee depreciation and value buying.
- Among the laggards, CNX Realty index declined the most, down by 11.40% due to profit booking and as expectations of further rate cuts by the RBI waned.

Mutual Fund Overview



Category returns*	Absolute Monthly Returns%	
	May 2013	Apr 2013
Large Cap Funds	0.31	4.30
Diversified Equity Funds	0.38	3.79
Small and Midcap Funds	1.09	3.25
Balanced Funds	0.98	3.10
Monthly Income Plans	1.58	2.03
Long Term Gilt Funds	3.36	2.60
Long Term Debt Funds	2.38	2.08
Short Term Debt Funds	1.02	1.33
Ultra Short Term Funds	0.74	0.96
Liquid Funds	0.71	0.81
Gold Funds (ETFs and FoFs)	-0.56	-8.25

*Categories as of CRISIL Mutual Fund Ranking March 2013 except gold funds

Top Stock Exposures - May 2013

1. ICICI Bank Ltd.
2. HDFC Bank Ltd.
3. ITC Limited
4. Infosys Ltd.
5. Reliance Industries Ltd.
6. HDFC Ltd.
7. State Bank Of India
8. Larsen & Toubro Ltd.
9. ONGC Ltd.
10. Tata Consultancy Services Ltd.

Note:- The month-end portfolios as of May 2013 have been considered for the report.

Top Sector Exposures - May 2013

1. Banks
2. Computers - Software
3. Pharmaceuticals
4. Refineries/Marketing
5. Cigarettes
6. Oil Exploration
7. Housing Finance
8. Engineering
9. Cement
10. Telecom - Services

New Stocks Entries and Exits in Mutual Fund Portfolios - May 2013

Entries

Just Dial Ltd.
Prozone Capital Shopping Centres Ltd.

Exits

Fairfield Atlas Ltd.
Globsyn Infotech Ltd.
Himadri Chemicals & Industries Ltd.
Orient Green Power Company Ltd.
Orient Refractories Ltd.
Swelect Energy Systems Ltd.
Pearl Global Industries Ltd.

- The Indian mutual fund industry's month-end assets under management (AUM) rose over 5% month on month (by Rs 42,874 cr) to an all-time high of Rs 8.68 lakh cr in May 2013.
- AUM gains in May were led by inflows into income and liquid funds.
- Income funds' (includes long-term debt funds, short-term debt funds, fixed maturity plans and ultra short-term debt funds) assets rose by nearly Rs 24,899 cr or 6% to a 3-year high of Rs 4.47 lakh cr led by inflows of nearly Rs 20,919 cr and mark-to-market gains. Most of the inflows were into short term and ultra short term debt funds as banks and corporates re-invested their funds in these short maturity categories.
- Assets of liquid funds too were up by Rs 21,668 cr to a 25-month high of Rs 2.06 lakh cr, led by inflows of Rs 20,697 cr in May plus mark-to-market gains. Inflows in the liquid funds category are part of the historical trend, which sees outflows in the quarter-end month and subsequent inflows in the following two months (March saw outflows while April and May have seen inflows). Improved liquidity in the banking system also supported inflows.
- After a sharp rise in AUM of around 14% in April, gilt funds saw profit booking in May. The category saw outflows of Rs 498 cr in May, the highest since Rs 1,061 cr of outflows seen in July 2009. Accordingly, gilt funds' assets declined by Rs 255 cr to Rs 8,926 cr at the end of May. AUM losses were lower than outflows owing to mark-to-market gains in the underlying funds.
- Gilt prices have gained over the year as the RBI cut interest rates with the current calendar year witnessing three interest rate cuts of 25 basis points (0.25%) each. Interest rates (gilt yields) and prices (fund NAVs) move in opposite directions. Accordingly, as interest rates fall, gilt prices and fund NAVs rise to generate higher returns for these funds.
- Equity funds (including ELSS funds) saw outflows of Rs 3,357 cr in May compared to around Rs 270 cr in April, the highest for the category in eight months. The category has witnessed outflows in 11 out of the past 12 months as investors continued to book profits. The category assets declined by Rs 3,216 cr or 1.8% in May to Rs 1.75 lakh cr.

Fund News

- SBI Mutual Fund to acquire Daiwa Mutual Fund subject to regulatory approvals.



CRISIL Fund Rank 1 Schemes - Hybrid

Mutual Funds' Performance Report

Scheme Name	Point to Point Returns %					Since Inception	Inception Date	Average AUM (Rs.Crore)	Style Box	Std. Deviation (%)	Sharpe Ratio
	1 Month	3 Months	6 Months	1 Year	3 Years						
Balanced											
ICICI Prudential Balanced Fund	1.24	2.95	3.10	19.30	11.06	13.56	3-Nov-99	447.50		12.23	0.58
MIP Aggressive											
Kotak Monthly Income Plan	1.73	3.75	5.34	14.04	8.26	6.94	2-Dec-03	58.42		3.70	1.63
MIP Conservative											
SBI Magnum Monthly Income Plan	1.89	4.53	6.65	15.34	8.68	7.72	23-Mar-01	241.60		3.17	2.37

CRISIL Mutual Fund Ranks as of March 2013

Point to Point Returns are as on May 31, 2013

Returns are annualised for periods above 1-year, other wise actualised

Risk Ratios are annualised

Period for Risk Ratios is two years

For Sharpe Ratio the risk free rate is 8.29% - the average 91-day T-Bill auction cut-off rate for two years

Average AUM is 3-months average number as disclosed by AMFI for the period January-March 2013

(Style Box Legend for Balanced Schemes)

	Value	Blend	Growth
Large cap			
Small & Midcap			
Diversified			

(Style Box Legend for MIP Aggressive and Conservative Schemes)

CREDIT QUALITY			INTEREST RATE SENSITIVITY
High	Medium	Low	
Medium			
High			
Low			

Average Assets under Management - A Bird's Eye View

Mutual Fund Name	Jan-Mar 2013 (Rs.Crore)	Oct-Dec 2012 (Rs.Crore)	Change (Rs.Crore)	% Change	Mutual Fund Name	Jan-Mar 2013 (Rs.Crore)	Oct-Dec 2012 (Rs.Crore)	Change (Rs.Crore)	% Change
HDFC Mutual Fund	101720	101393	328	0.32	Principal Mutual Fund	5573	4955	618	12.47
Reliance Mutual Fund	94580	90636	3944	4.35	HSBC Mutual Fund	5230	5347	-117	-2.19
ICICI Prudential Mutual Fund	87835	81394	6441	7.91	Peerless Mutual Fund	4875	4721	153	3.25
Birla Sun Life Mutual Fund	77046	76890	157	0.20	Goldman Sachs Mutual Fund	4800	4786	14	0.29
UTI Mutual Fund	69450	70638	-1188	-1.68	Taurus Mutual Fund	4731	4177	555	13.28
SBI Mutual Fund	54905	53311	1594	2.99	BNP Paribas Mutual Fund	3726	3216	510	15.85
Franklin Templeton Mutual Fund	41564	40869	696	1.70	Union KBC Mutual Fund	3118	3012	106	3.51
Kotak Mahindra Mutual Fund	35361	31773	3589	11.29	Morgan Stanley Mutual Fund	2660	2539	121	4.78
IDFC Mutual Fund	32886	30002	2884	9.61	Indiabulls Mutual Fund	2639	2553	86	3.38
DSP BlackRock Mutual Fund	32342	30838	1505	4.88	Pramerica Mutual Fund	2592	2038	554	27.20
Tata Mutual Fund	19897	19742	155	0.79	BOIAXA Mutual Fund	1104	661	443	66.98
Deutsche Mutual Fund	18114	18037	77	0.43	PineBridge Mutual Fund	1099	1164	-65	-5.60
JPMorgan Mutual Fund	15856	13300	2556	19.22	ING Mutual Fund	993	933	60	6.41
Sundaram Mutual Fund	14871	14595	276	1.89	Mirae Asset Mutual Fund	540	527	13	2.45
Religare Mutual Fund	14202	14025	177	1.26	Motilal Oswal Mutual Fund	539	588	-50	-8.47
Axis Mutual Fund	12114	10550	1564	14.82	Quantum Mutual Fund	280	252	28	11.02
L&T Mutual Fund	11169	12064	-895	-7.42	Daiwa Mutual Fund	266	537	-271	-50.46
Canara Robeco Mutual Fund	8851	7513	1338	17.81	Edelweiss Mutual Fund	259	242	17	6.86
JM Financial Mutual Fund	7411	7467	-55	-0.74	Escorts Mutual Fund	255	230	25	10.90
Baroda Pioneer Mutual Fund	7303	5406	1897	35.10	Sahara Mutual Fund	254	287	-34	-11.70
LIC Nomura Mutual Fund	7185	6882	303	4.40	IIFL Mutual Fund	210	198	12	6.00
IDBI Mutual Fund	6249	6256	-7	-0.11					
Grand Total	816657	786544	30114	3.83					

AUM is the quarterly average number and excludes Fund of Funds
Data sorted on latest average AUM numbers

SBI Magnum Monthly Income Plan (CRISIL FUND RANK 1)

Launched on March 23, 2001, SBI Magnum Monthly Income Plan is classified under the MIP-Conservative category of the CRISIL Mutual Fund Rankings. The fund is ranked CRISIL Fund Rank 1 (top 10 percentile of the peer set) over the past two quarters, indicating superior performance and disciplined portfolio management. The scheme had average assets under management (AUM) of Rs 242 cr as of January-March 2013.

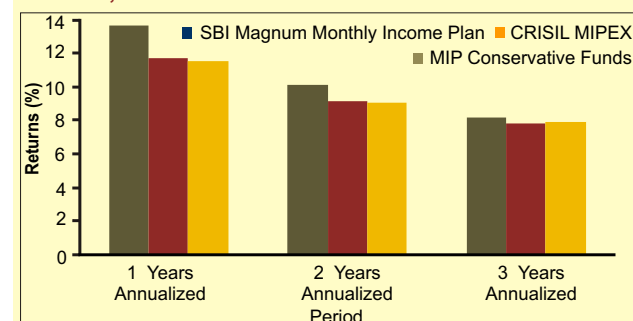
Investment Style

MIPs are debt oriented hybrid funds with predominant investment in debt and money market instruments and the rest in equity. Their investment style is classified as conservative or aggressive based on the weightage given to the equity component, which can vary from 0% to 30%. SBI Magnum Monthly Income Plan's risk profile is conservative since its allocation to equity varies between 0% and 15%. This scheme is beneficial to investors looking for a small equity exposure but with stable returns on a monthly basis. The higher debt component seeks to provide the necessary stability in returns.

Performance

The fund has given annualised returns of around 8.2% over the past three years ended June 14, 2013 as compared to 7.8% of the benchmark index (CRISIL MIPEX). The performance over the past one year has been notable with the fund delivering close to 14% returns vis-à-vis the benchmark index's 12% and 11.5% returns by peers. (Chart 1)

Chart 1: SBI Magnum MIP Performance as on June 14, 2013



Consistent Dividend Payout

Over the five-year period ended May 2013, the fund distributed dividends in 52 out of 60 months indicating consistency in dividend payout. The average annualised dividend payout of the fund over this period is around 6%.

Portfolio Analysis

SBI Magnum Monthly Income Plan has had an average equity exposure of 13.5% over the past three years. The fund has limited its exposure to equity within 15% as stated in its asset allocation. The fund has varied its debt allocation to sovereign, NCD and bonds and even short-term instruments based on the fund managers' view on interest rates.

On the asset quality front, the fund had a three-year average exposure of 48% in highest rated securities, while it invested an average 19% in government securities in the same period.

Fund Managers' Profile

Dinesh Ahuja (Debt Fund Manager) is a Master of Management Studies Finance from University of Mumbai and has over 13 years of experience in Indian financial services and capital markets in various capacities.

Ruchit Mehta (Equity Fund Manager) is a B-Tech, MS, MBA (USA) and has over seven years' experience in the industry, primarily as a research analyst.

Every month, Fund Focus will feature one of the CRISIL Mutual Fund Rank 1 Schemes

CRISIL - AMFI launch Mutual Funds performance indices

Indices developed and to be maintained by CRISIL, to cover 5 categories

CRISIL and the Association of Mutual Funds in India (AMFI) have jointly launched a group of mutual fund performance indices across five categories – equity funds, equity-linked savings schemes (ELSS), debt funds, money market funds and hybrid funds. These co-branded indices, the first of their kind in the country, represent the performance of various mutual fund categories and enable comparison of these categories with appropriate benchmarks across time frames and market cycles. By increasing awareness about the performance of mutual funds, the indices will help in bringing greater transparency and boost investor confidence.

Based on time series data since 1997, the indices have been developed and will be maintained by CRISIL. They cover five broad mutual fund categories, and are named CRISIL-AMFI Equity Fund Performance Index, CRISIL-AMFI ELSS Fund Performance Index, CRISIL-AMFI Debt Fund Performance Index, CRISIL-AMFI Money Market Fund Performance Index and CRISIL-AMFI Hybrid Fund Performance Index. These indices also have various sub-categories. The indices will be updated on a quarterly basis and will be available on www.crisil.com and www.amfiindia.com.

Commenting on this pioneering initiative, Roopa Kudva, Managing Director and Chief Executive Officer, CRISIL, said, “*The introduction of the CRISIL-AMFI MF performance indices is an important milestone in bringing greater transparency to the Indian mutual fund industry. These indices will add considerable value to the retail investors and boost their confidence in mutual funds. Retail investors can use these indices as a standard performance metrics to understand the benefits of investing through mutual funds.*”

According to HN Sinor, CEO, AMFI, “*The performance trends seen in the CRISIL-AMFI MF performance indices clearly uphold the benefits of mutual fund investing. They conclusively prove that mutual funds have outperformed broader markets and are therefore, an ideal medium for wealth creation over longer time frames.*”

Ashu Suyash, Chairperson of AMFI Customer Engagement Committee and Chief Executive, L&T Mutual Fund said “*These indices developed by CRISIL will bring in greater transparency and awareness on the benefits of investing in mutual funds and the role they can play in wealth creation over time. Furthermore, these will provide an appropriate benchmark to the investors and the industry at large.*”

Some key observations that have emerged from the performance analysis of these indices:

- The CRISIL-AMFI Equity Fund Performance Index has given an annualised return of 22% since April 1, 1997, as compared to annualised returns of 12% and 13% by the benchmarks CNX NIFTY and CNX 500, respectively during the same period.
- The CRISIL-AMFI Equity Fund Performance Index has never given a negative return for any five-year period on a daily rolling basis since April 1, 1997.
- The CRISIL-AMFI Money Market Fund Performance Index has consistently outperformed the savings bank rate in the range of 110 to 550 basis points.
- The CRISIL-AMFI Debt Fund Performance Index outperformed fixed deposits (FD) by a significant margin during declining interest rate cycles.

Investors can get more details about these indices at <http://crisil.com/capital-markets/indices.html> and <http://amfiindia.com/CrisilPerformanceIndices.aspx>

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Contact Details:

Deepak Mittal: +91 22 3342 8031; deepak.mittal@crisil.com
Praveen Rudhra: +91 22 3342 8047; praveen.rudhra@crisil.com
Purvi Nanda: +91 22 3342 8036; purvi.nanda@crisil.com
Trideep Choudhary: +91 22 3342 3569; trideep.choudhary@crisil.com

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CRISIL Limited

CRISIL House, Central Avenue, Hiranandani Business Park, Powai, Mumbai – 400076. India

Phone: + 91 22 3342 3000 Fax: + 91 22 3342 8088

Email: CRISILFundServices@crisil.com Web: www.crisil.com

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