January 20, 2017

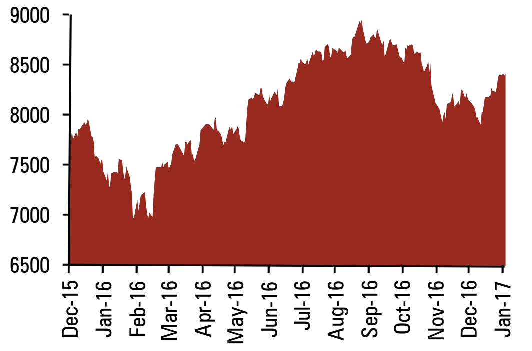
Mutual Fund Review

January 20, 2017

Note: Whenever, returns for the scheme are shown in the report, they are for the growth option of the scheme.

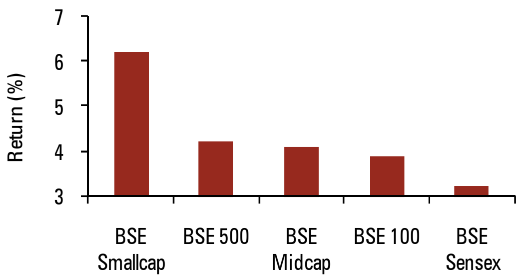
Equity Markets

Nifty 50: After touching high in September gave up most of the gains by the end of the year



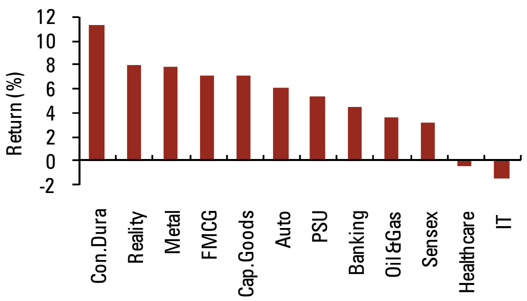
Source: Bloomberg, ICICIdirect.com Research

Smallcap & Midcap indices outperform Sensex



Source: Bloomberg, ICICIdirect.com Research
One month returns till January 18, 2017

Reality & Metals saw value buying while FMCG rebounded post correction after demonitisation



Source: Bloomberg, ICICIdirect.com Research
One month returns till January 18, 2017

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Update

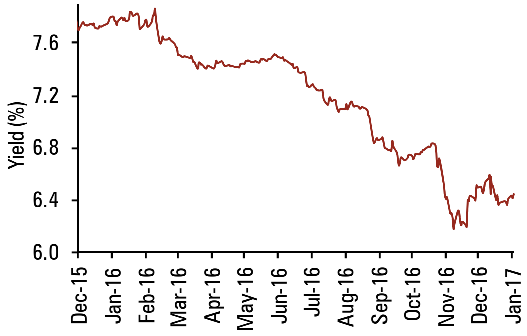
- The year 2016 was marked by several unexpected outcomes like the surprise verdicts of Brexit referendum, US Presidential elections, a sharp recovery in global commodities and a hawkish US Federal Reserve in its latest meeting. The reaction was also against consensus due to the resilience with which markets digested the shocks and moved higher post the event
- In India, signs of growth were clearly visible as most macro indicators were pointing towards creation of a platform that would accelerate growth and corporate earnings in FY18E. Then, towards the close of the calendar year, the extremely unexpected event in the form of demonetisation happened, which may affect growth and earnings in the near term but at the same time sow seeds of structural changes that will have a lasting and durable impact on the growth prospects India
- Amid uncertainties about the impact of demonetisation, some greenshoots were witnessed in terms of higher tax collection (both direct & indirect tax) in the first nine months of FY17. Also, the government's expectations of exceeding the Budget estimates of tax collections for FY17 points to the limited impact of demonetisation
- On the global front, the US Federal Reserve, in its December 14 meeting, increased interest rate by 25 bps and signalled three rate hikes in 2017 as the Donald Trump administration takes over with promises to boost the US economy through tax cuts, spending and deregulation
- We believe the election of the new US President will have a very limited impact on the Indian economy. It is overall positive as the overhang of the event outcome is now no more there. Global markets, after initially reacting negatively on the unexpected election of Donald Trump, recovered almost fully taking into stride the new development. The recovery in most major global markets indicates that the perceived negative or change in policy decisions by the new President may not be as severe as earlier expected

Outlook

- Although there would be some impact in the next one or two quarters on few sectors, we expect earnings to recover in FY18
- We believe the demonetisation impact would be limited to three to six months. It would benefit organised players in long run
- Demonetisation will have several long term benefits like rise in tax collections, shifting of the cash economy to the banking system, improved banking system liquidity, etc. This move is also going to be a big sentimental boost for the Union government and will be seen as a major bold economic reform
- Markets would be keenly awaiting the upcoming Budget and its ability to provide a growth impetus to the economy
- We believe volatility will remain high in the near term in the run up to the Union Budget, state elections, progress of GST and start of the Q3 earnings season. This provides long term investors a good opportunity to enter the market and stagger their investment in the next three to six months

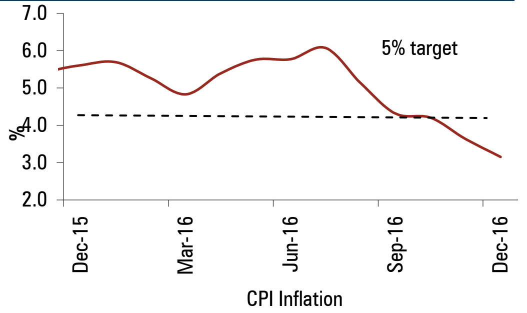
Debt Markets

Ten year G-sec yields fall sharply post demonetisation anouncement before giving up some gains post monetary policy



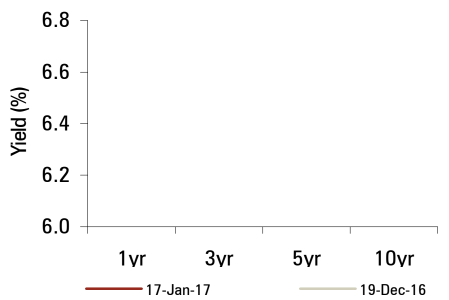
Source: Bloomberg

December CPI at 3.15% well within RBI's limit of 5%



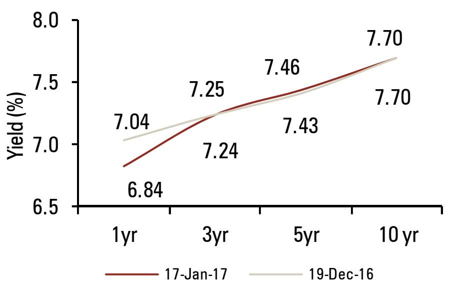
Source: Bloomberg

G-sec yields shift lower while dropping maximum for long dated securities



Source: Bloomberg, ICICIdirect.com Research

Corporate bond yield curve witnessed slight decline



Source: Bloomberg, ICICIdirect.com Research

Update

- The year 2016 turned out to be one of the best calendar years for fixed income investors. Gilt funds were the best performing category riding on a fall in G-sec yields
- Sovereign bond yields fell sharply with 10 year benchmark G-sec yield down 125 bps in the year. Rally in global fixed income market, dovish stance by RBI & finally demonetisation resetting RBI rate cut expectations, supported continuing rally in bond market over the year
- In India, the change at the helm of the RBI with the hawkish Raghuram Rajan's tenure getting completed and more dovish MPC formed also helped market sentiments to support the ongoing rally
- The historic move of announcement of demonetisation of ₹ 500 and ₹ 1000 notes starting November 9, 2016, barring some exceptions, is likely to have huge implications on inflation and growth dynamics
- On the macroeconomic front, the impact is expected to be positive with a contraction in money supply due to demonetisation expected to be neutralised by a more liberal monetary policy with interest rate cuts being a key agenda item. In anticipation of a rate cut and improved liquidity, 10 year India G-sec yields fell 20 bps from 6.67% on November 8 to 6.47% on January 19
- RBI in its monetary policy maintained the repo rate unchanged against broad market expectations of rate cut and preferred to "wait and watch" regarding the policy, considering global uncertainties and domestic growth-inflation dynamics
- In 2017, the focus will be on the global interest rate trajectory primarily on the US Federal Reserve. US Fed has indicated three rate hikes in calendar year 2017 followed by a similar number of hikes in 2018

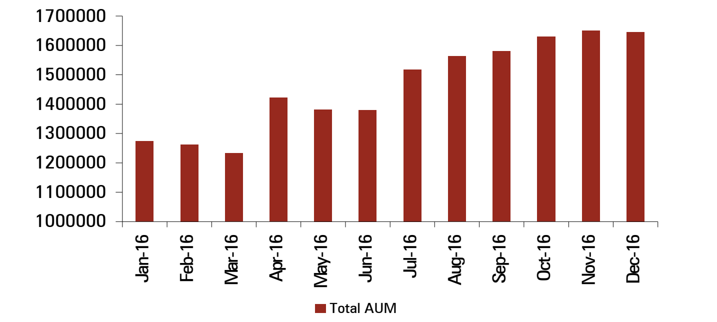
Outlook

- The expectations of further repo rate cut from the RBI has increased post the demonetisation process due to its impact on growth and inflation dynamics
- We have assumed that RBI will maintain a real interest rate spread of around 125 bps. The spread of one year G-sec yield over CPI inflation is considered the real interest rate as indicated by RBI. The one year G-sec yield on an average trades around 25 bps above repo rate. Any difference above 125 bps opens up scope for further rate cuts
- The 10 year benchmark G-Sec rallied around 60 bps post the demonetisation announcement in anticipation of further rate cuts and ample liquidity in the banking system. However, it gave up some gains post the RBI's policy meeting
- The fixed income market has already witnessed a sharp rally post the demonetisation announcement on November 8, 2016. Although the bias remains positive, further downside in 10 year G-Sec yield from current levels looks limited. We expect the benchmark 10 year G-Sec yield to move towards 6.25%

MF industry synopsis

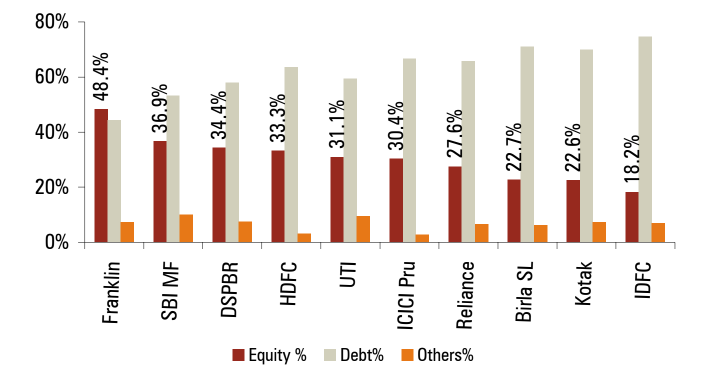
- Mutual funds witnessed strong inflows in the last three years leading to strong growth in overall assets managed by mutual funds. Total assets managed by mutual funds have touched a high of ₹ 16.46 lakh crore in Decembe 2016, increasing 29% YoY, of which 47% was held by income funds and ~25% by equity funds
- In the nine moths of FY17, the mutual fund industry saw an inflow of ₹ 313842 crore into the Indian mutual fund industry. Out of the total inflow, ₹ 50809 crore came into equity and ELSS funds
- Despite the correction in equity markets, inflows in equity mutual funds have remained steady. This trend reflects the increasing participation of investors in mutual fund and using correction as an opportunity to deploy capital

Exhibit 1: MF industry continues to rise on inflows across categories



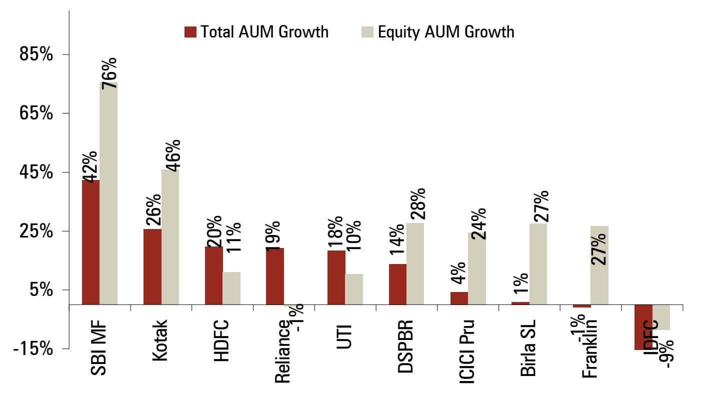
Source: ACE MF

Exhibit 2: Fraklin Templeton has highest proportion of equity AUM as percentage of its AUM



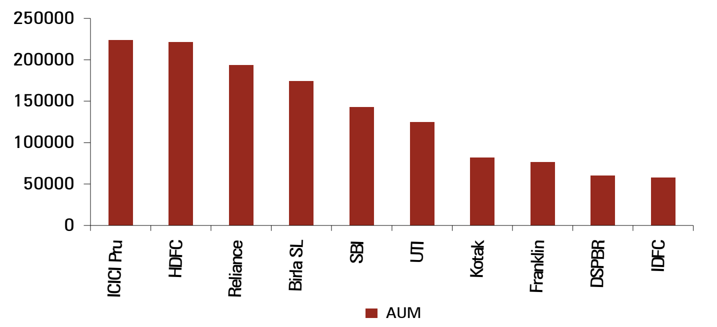
Source: ACE MF. Data as on December 2016

Exhibit 3: Growth in AUM of Top 10 AMCs in last year



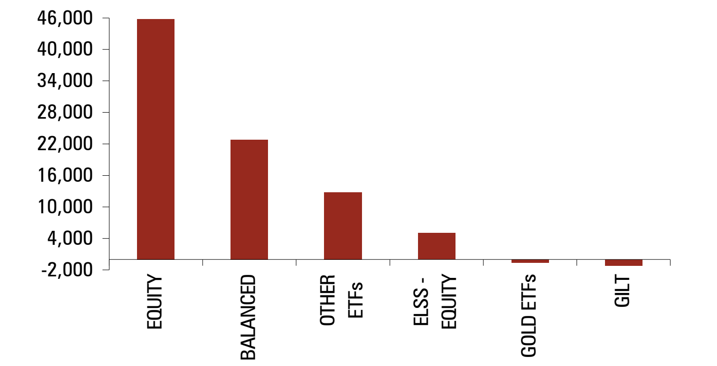
Source: AMFI

Exhibit 4: AUM of Top 10 AMCs



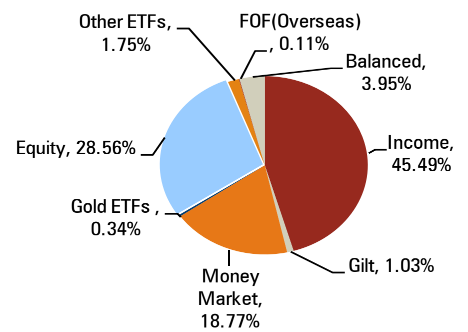
Source: ACE MF

Exhibit 5: Within retail category, equity funds witness significant inflows in FY17 till date…



Source: ACE MF. Data as on December 2016

Exhibit 6: AUM share in December 2016….



Source: ACE MF

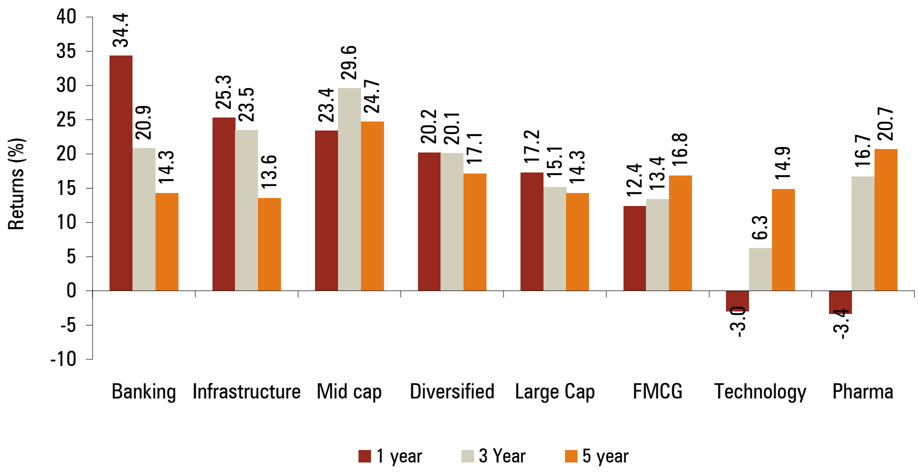
MF Category Analysis

Equity funds

- Banking & infrastructure funds were top performers in 2016, having outperformed large cap and midcap funds and beating other categories pharmaceuticals, information technology (IT) & fast moving consumer goods (FMCG)
- Technology and pharma funds have underperformed as investors re-shuffled their portfolios. Investors booked profit in technology and phama sectors while investing in beaten down sectors like banking

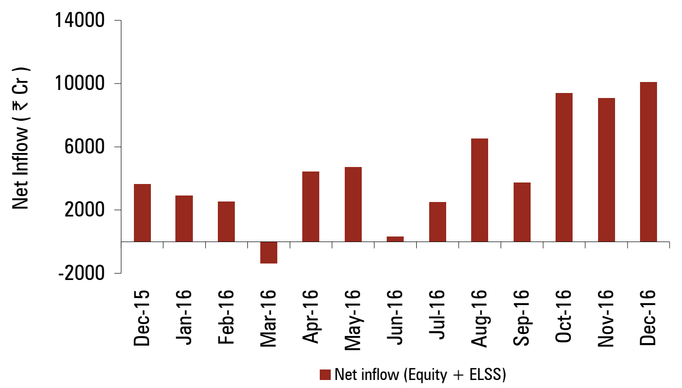
Reshuffling of portfolio was seen post Union Budget with beaten down sectors rallying sharply outperforming defensive sectors

Exhibit 7: Banking & infrastructure funds outperform other categories while pharma and IT funds continue to be under pressure (returns as on January 18, 2017)



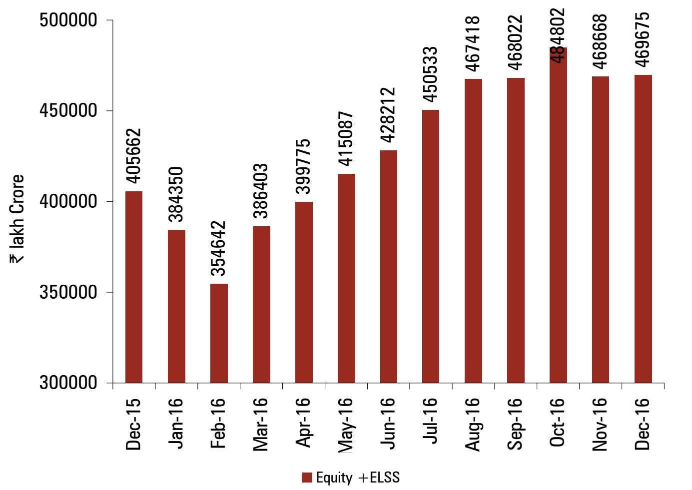
Source: Crisil, ICICIdirect.com Research ; Returns over one year are compounded annualised returns

Exhibit 8: Equity funds see consistent inflows despite volatile markets



Source: AMFI, ICICIdirect.com Research

Exhibit 9: Equity funds' AUM remain stable in December 2016



Source: AMFI, ICICIdirect.com Research

View
Short term: Positive
Long-term: Positive

Equity diversified funds

- Indian equity markets were slightly negative in December 2016. Benchmarks Nifty 50 and S&P BSE Sensex ended lower by just 0.47% and 0.10%, respectively, for the month. Midcap & small cap indices corrected 3.7% and 2%, respectively, during the same period
- Indian markets have been consolidating in the last month after having corrected around 8% from the highs in September 2016
- Major factors, which weighted on market sentiments were weak domestic industrial production data, increasing possibility of a delay in the implementation of Goods & Services Tax (GST) and persistent selling by the foreign institutional investors (FIIs)
- The biggest worry domestically was the likely hit on corporate earnings from demonetisation. We belive that demonetisation reform measures may have a short-term impact on industries that are mainly dependent on cash transactions. Industries such as construction, real estate, hotel businesses, self-owned businesses, bullion & jewellery, mining, etc, are likely to see the impact of this move. Medium and small businesses that are cash transaction heavy will also be hit
- The structural long term benefit to the formal economy is significant over the medium term in terms of a structural improvement in long term growth, lower inflation, lower interest rates due to improved liquidity and improvement in fiscal position of government. The same along with other structural reform undertaken by the government is likely to provide visibility for durable long term growth. Demonetisation could have a positive impact on financial savings, resulting in conversion of cash assets into financial investments
- Some profit booking pressure may remain in the market in the near term, especially given the run up in the markets in the last two or three years
- Currently, there is heightened uncertainty in terms of near term growth impact that is impacting investor's sentiments negatively. The global markets are also trading volatile. Therefore, volatility in the Indian markets is likely to remain at elevated levels. Long term investors should use this current volatility to accumulate equities in the next three to six months

Recommended funds

Large cap

- Birla Sunlife Frontline Equity
- ICICI Prudential Focused Bluechip Equity
- SBI Bluechip

Diversified

- Franklin India Prima Plus Fund
- Reliance Equity Opportunities
- ICICI Prudential Value Discovery Fund

Midcap

- HDFC Mid-Cap Opportunities Fund
- Franklin India Smaller Companies Fund
- SBI Magnum Global Fund

(Refer to www.icicidirect.com for details of the fund)

View
Short-term: Positive
Long-term: Positive

Equity Infrastructure fund

- We believe the infrastructure sector would not be much impacted due to demonetisation as organised players are not facing any issues in execution except few labour and subcontracting payment issues
- With the government's focus on infrastructure development, it could increase its infrastructure spending, which will lead to higher awarding opportunities for infrastructure players. Furthermore, it would also improve transparency in the system

Preferred Picks

- Franklin Build India Fund
- L&T Infrastructure Fund
- ICICI Prudential Infrastructure Fund

Refer www.icicidirect.com for details of the fund

View
Short-term: Positive
Long-term: Positive

Equity Banking Funds

- Demonetisation would have short-term headwinds for financials in the form of lower credit growth, rise in NPL in SME and real estate portfolio (LAP). However, banks would also benefit in the form of higher deposits and treasury gains with downward trajectory in yields
- We remain optimistic on the banking sector keeping in mind the anticipated pick-up in credit offtake. Steady margins and continuance of treasury gains is expected to further aid profitability
- From a long term point of view, the demonetisation process is structurally positive for the financial industry with a reduction in black economy, enhanced awareness and benefits of usage of digital or electronic payments. This will be positive for the banking industry from an operating cost perspective

Preferred Picks

- ICICI Prudential Banking & Financial Services
- SBI Banking & Financial Services Fund
- UTI Thematic - Banking Sector Fund

Refer to www.icicidirect.com for details of the fund

View
Short-term: Positive
Long-term: Positive

Equity FMCG

- We believe demonetisation, in the near term, may impact revenues of companies due to a) impact on the liquidity crunch in the distribution channel as small retailers, who do bulk of sales, mainly deal in cash and b) near term impact on demand, mainly in the discretionary portfolio due to less cash in hands of consumers. However, in the long term, we do not see this impacting the demand supply cycle in the FMCG space
- We maintain our positive outlook on the FMCG sector backed by the expected turnaround in rural demand in the backdrop of a) normal monsoon after two consecutive years of deficit rainfall and b) the government's thrust on increasing rural income levels by focusing on the agri economy. Additionally, we expect the implementation of GST, which is around the corner, to provide a big boost to FMCG companies, particularly those present in personal care and household

Preferred Picks

- ICICI Prudential FMCG Fund
- SBI FMCG Fund

Refer www.icicidirect.com for details of the fund

Equity pharma funds

View
Short-term: Neutral
Long-term: Positive

- Despite pricing pressure and client consolidation in the US, most players (barring a few) are well poised to register at least high teen growth on the back of accelerated new product approvals and market share gains in existing products. Similarly, concerns regarding compliance related issues are also waning. Indian players are better prepared than 12-18 months ago as reflected in the growing number of EIRs by the USFDA for Indian facilities
- Indian formulations are likely to do well despite NLEM/FDC issues. We do not expect any material impact of demonetisation on the Indian pharma industry. However, temporary disruptions on trade channels and inventory levels could impact short-term growth
- We maintain our long term positive stance on the sector. In the long run, we expect the earnings momentum to continue on the back of incremental product launches in the US besides normalising of Indian formulations growth

Preferred Picks

- Reliance Pharma Fund
- SBI Pharma Fund
- UTI-Pharma & Healthcare

Refer to www.icicidirect.com for details of the fund

Equity Technology Funds

View
Short-term: Neutral
Long-term: Neutral

- We do not expect any material impact of demonetisation on the IT sector as it is an export oriented B2B business
- We maintain our neutral stance on the sector as the industry could face challenges related to immigration rules post the election of US President Donald Trump, continued uncertainty around Brexit, growing protectionism around the world leading to marginal IT spending by companies. The industry would continue to witness pricing pressure in its traditional business, which is currently unable to offset newer revenue streams from digital areas that enjoys higher margins

Preferred Picks

- ICICI Prudential Technology Fund
- DSPBR Technology fund

Refer to www.icicidirect.com for details of the fund

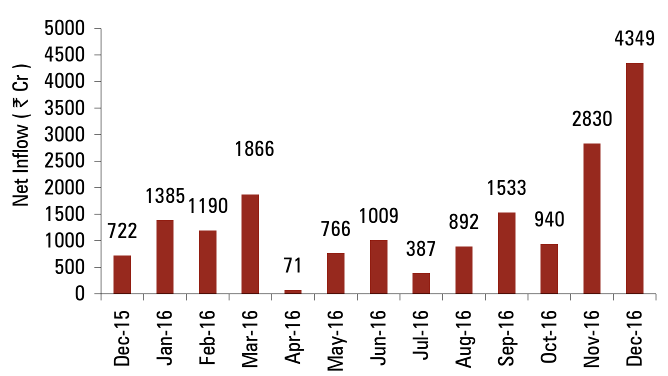
Exchange Traded Funds (ETF)

Traded volumes should be the major criterion that is used while deciding on investment in ETFs. Higher volumes ensure lower spread and better pricing to investors...

Tracking error, though it should be considered, is not the deciding factor as variation among funds is not huge...

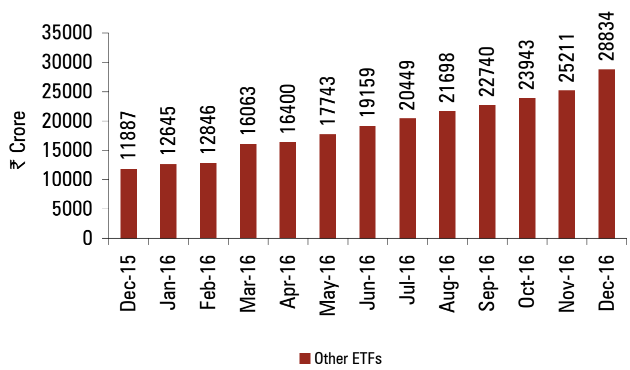
- In India, three kinds of ETFs are available: Equity index ETFs, liquid ETFs and gold ETFs
- An equity index ETF tracks a particular equity index such as the BSE Sensex, NSE Nifty, Nifty Junior, etc
- An equity index ETF scores higher than index funds on several grounds. The expense of investing in ETFs is relatively less by 0.50-1.00% in comparison to an index fund. The expense ratio for ETFs is in the range of 0.50-0.75%, excluding brokerage, while for index funds the expense ratio varies in the range of 1.0-1.5%. However, brokerage (which varies) is applicable on ETFs while there are no entry loads now on index funds
- Tracking error, which explains extent of deviation of returns from the underlying index, is usually low in ETFs as it tracks the equity index on a real time basis whereas it is done only once in a day for index funds
- ETFs also provide liquidity as they are traded on stock exchanges and investors may subscribe or redeem them even on an intra-day basis. This is unavailable in index funds, which are subscribed/redeemed only on a closing NAV basis
- In August 2015, the labour ministry decided to invest 5% of Employees' Provident Fund Organisation's (EPFO) incremental corpus in ETFs. The investement in equities is split between the Nifty ETF (75%) and Sensex ETFs 25%. EPFO chose two ETF schemes of SBI Mutual Fund—SBI ETF Nifty and SBI Sensex ETF.
- Recently, EPFO has hiked the limit from 5% to 10% of its incremental corpus of investment in equities. This is a positive move since retirement savings, which are long term in nature, will be invested in equities that have the potential to generate higher returns. So far, EPFO has invested a total of ₹ 9,723 crore in exchange traded funds as on October 31, 2016.
- Over 400 ETFs are traded globally. ETFs are transparent and cost efficient. The decision on which ETF to buy should be largely governed by the decision on getting exposure to that asset class

Exhibit 10: Snesex/Nifty ETFs receiving consistent inflows…



Source: AMFI, ICICIdirect.com Research

Exhibit 11: …leading to consistent increase in AUM



Source: AMFI, ICICIdirect.com Research

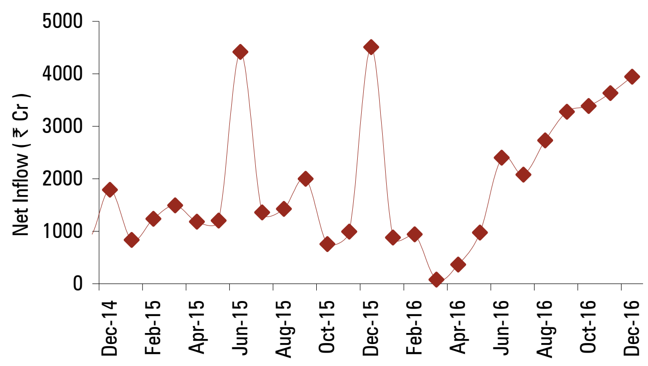
Balanced funds

View
Short-term: Positive
Long-term: Positive

Investors with a limited investible surplus and a lower risk appetite but with a willingness to invest in equities can look to invest in these funds

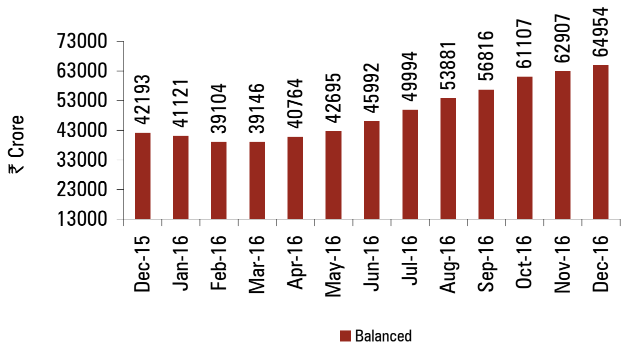
- Balanced funds have witnessed consistent inflows in the last two years with average monthly inflows at around ₹ 1700 crore
- The AUM of balanced funds has witnessed a significant increase of more than 54% in the last one year. The AUM as on December 2016 stands at around ₹ 64954 crore
- Over the years, the balanced space has emerged as one of the fastest growing equity categories and offers an ideal investment option for first-time equity investors
- Balanced funds are hybrid funds. More than 65% of the overall portfolio is invested in equities. Hence, as per provisions of the Income Tax Act, 1961, any capital gains over one year become tax free. Also, dividends declared by funds are tax free
- In case one separately invests 35% of one's investible corpus in a debt fund, the same will be subject to higher taxation. However, if the whole corpus is invested in balanced funds, 100% shall have lower taxation applicable as mentioned above
- After a sharp rally in equity markets, the funds can be a preferred investment avenue as the debt proportion serves to protect on intermediate relief rallies or the downturn while providing 65% participation on further upsides

Exhibit 12: Consistent inflow into balanced funds



Source: AMFI, ICICIdirect.com Research

Exhibit 13: YoY 54% growth in AUM of balanced funds



Source: AMFI, ICICIdirect.com Research

Preferred Picks

- ICICI Prudential Balanced - Advantage Fund
- HDFC Balanced Fund
- Tata Balanced Fund

(Refer to www.icicidirect.com for details of the fund)

Monthly Income Plans (MIP)

View
Short-term: Neutral
Long-term: Positive

MIP should be a preferred debt investment for funds that need to be parked for over two years

- An MIP offers investors an option to invest in debt with some participation in equity, ~10-25% of the portfolio. They are suitable for investors who seek higher return from a debt portfolio and are comfortable taking nominal risk. The debt corpus of the portfolio provides regular income while the equity portion of the fund provides alpha. However, returns can also get eroded by a fall in equities
- MIPs can be classified into aggressive MIP and conservative MIP based on its equity allocation. Risk averse investors should invest in MIPs with lower equity allocation to avoid capital erosion
- The change in taxation announced in the Union Budget 2014, shall be applicable to MIP funds (refer to debt funds section for details)

Preferred Picks

- Birla Sun Life MIP II - Savings 5 Plan
- ICICI Prudential MIP 25
- DSPBR MIP Fund

(Refer www.icicidirect.com for details of the fund)

Arbitrage Funds

View
Short-term: Neutral
Long-term: Neutral

- Arbitrage funds seek to exploit market inefficiencies that get manifested as mispricing in the cash (stock) and derivative markets
- Availability of arbitrage positions depends very much on the market scenario. A directional movement in the broader index attracts speculators in the market while cost of funding makes futures positions biased
- Arbitrage funds are classified as equity funds as they invest into equity share and equity derivative instruments. Since these are classified as equity funds for taxation, dividends declared by the funds are tax free. No capital gains tax will be applicable if they are sold after a year
- These funds can be looked upon as an alternative to liquid funds. However, for these funds, returns totally depend on arbitrage opportunities available at a particular point of time and investors should consider reviewing the same before investing. Returns of arbitrage funds are non-linear and, therefore, unsuitable for investors who want consistent return across time period
- Arbitrage funds should be used as a liquid investment and should not be a major part of the investor's portfolio. A range bound market does not give ample room to create arbitrage positions

Preferred Picks

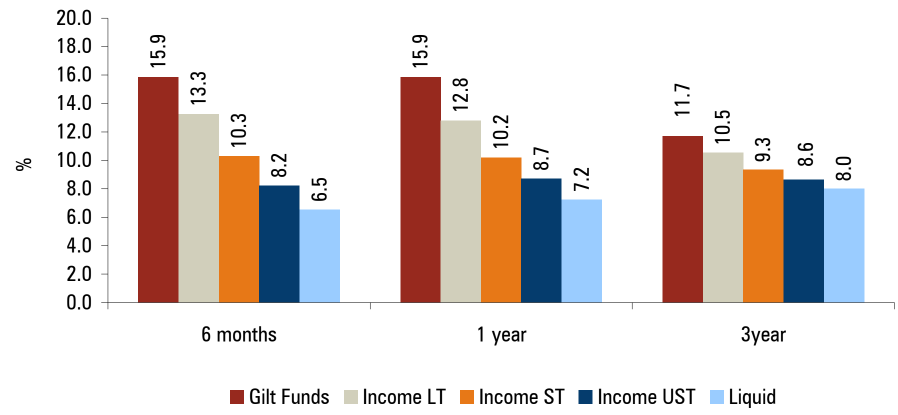
- ICICI Prudential Equity - Arbitrage Fund – Regular
- IDFC Arbitrage Fund - (Regular)
- Kotak Equity Arbitrage Fund
- SBI Arbitrage Opportunities Fund

(Refer to www.icicidirect.com for details of the fund)

Debt funds

G-sec yields have fallen 35 bps post demonetisation and 115 bps post 2016 Budget resulting in outperformance of gilt and income funds

Exhibit 14: Category average returns

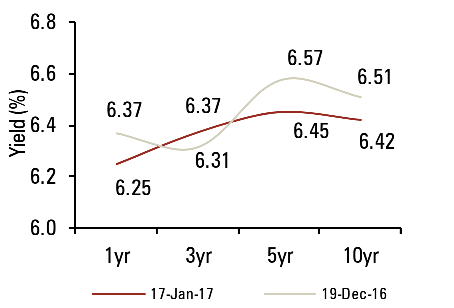


Source: ACE MF, ICICIdirect.com Research

Note : Returns as on January 18, 2017; All returns are compounded annualised

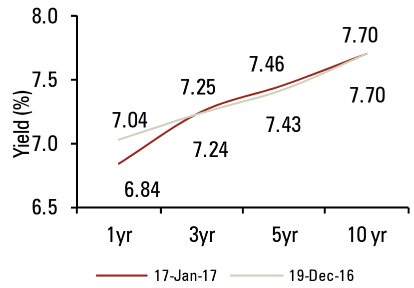
Investment into securities with maturity of less than 90 days and more than a year dominate total investments by mutual funds

Exhibit 15: G-sec yield curve



Source: Bloomberg, ICICIdirect.com Research

Exhibit 16: Corporate bond curve



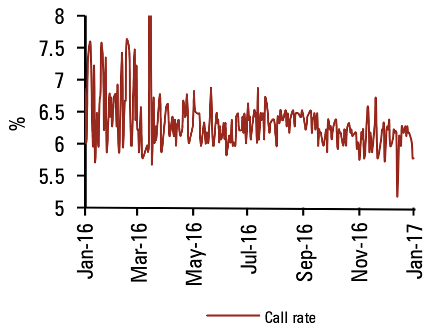
Source: Bloomberg, ICICIdirect.com Research

Liquid Funds

View
Neutral

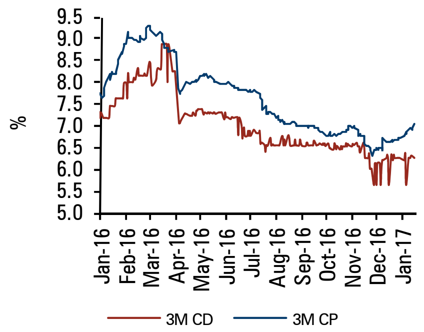
- The flush of liquidity due to demonetisation drive has led to a sharp fall in yields of shorter maturity papers. Yields of three month CD & three month CP have eased 90 bps and 70 bps, respectively in 2016
- Liquid fund returns have moderated significantly in the last few months with yields on short-term falling significantly. Going forward, it is expected to be lower as money market yield curve has shifted lower on improved liquidity
- For less than a year, individuals in the higher tax bracket should opt for dividend option as the dividend distribution tax @ 28.325% is marginally lower. Also, though the tax arbitrage has reduced, they still earn better pre-tax returns over bank savings (3-4%) and current accounts (0-3%)
- Changes in taxation rules announced in Union Budget 2014 are also applicable to liquid funds, as post tax returns in less than a three-year period get reduced for individuals falling in the higher tax bracket (30% tax slab) and for corporates

Exhibit 17: Call rates below repo rate



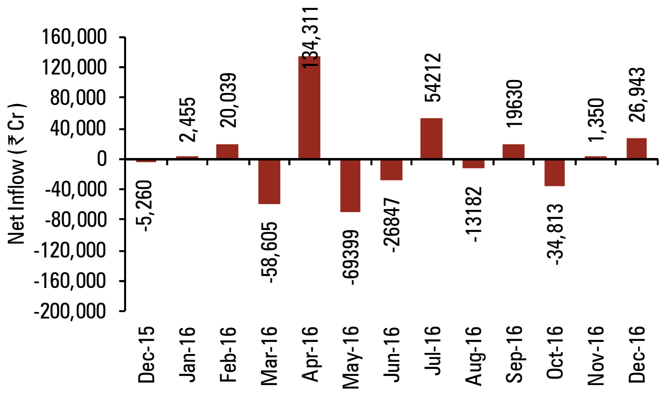
Source: Bloomberg, ICICIdirect.com Research

Exhibit 18: …CP/CD yields



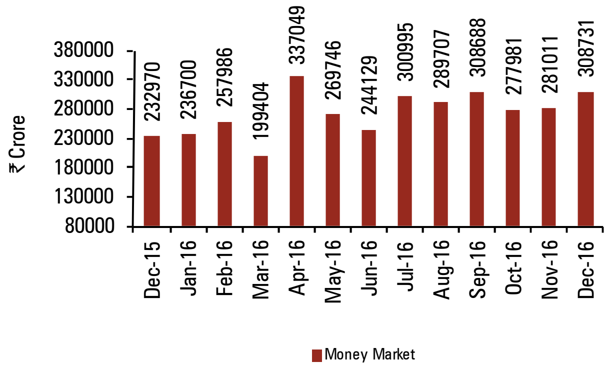
Source: Bloomberg, ICICIdirect.com Research

Exhibit 19: Flows into liquid funds remain volatile on institutional activity



Source: AMFI, ICICIdirect.com Research

Exhibit 20: AUM remains healthy



Source: AMFI, ICICIdirect.com Research

Preferred Picks

- HDFC Cash Management Fund - Savings Plan
- SBI Magnum InstaCash
- Reliance Liquid Fund - Treasury Plan

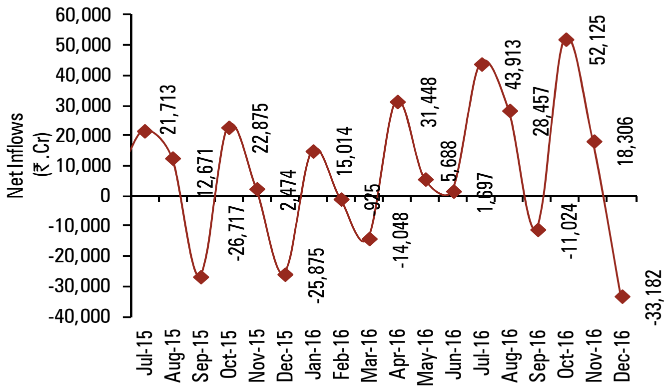
(Refer to www.icicidirect.com for details of the fund)

Income funds

View
Ultra-short term: Neutral
Short-term: Positive
Long-term: Neutral

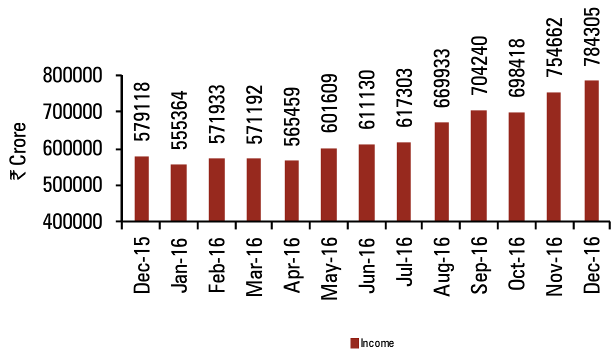
- Post-demonetisation, G-sec yields have eased around 35 bps from 6.80% to 6.45%. Also, there has been an improvement in liquidity conditions in the banking system
- In the income funds category, long term debt funds have been outperforming in the last one, three and six month periods
- Prior to the Union Budget, yields on longer duration securities, particularly government securities, continued to trade in a narrow range in 2015. Yields started correcting since February 2016 by around 112 bps from 7.62% to 6.50% as on November 18, 2016
- Overall, the direction of G-sec yield remains southward given the overall improvement in macroeconomic data. However, since yields have already corrected significantly, volatility may rise. Hence, dynamic bond funds are better placed than pure duration or G-Sec funds
- Short-term debt funds remain a stable performing category, especially in the current volatile environment. Credit funds with reasonable credit quality should be preferred over an aggressive credit fund

Exhibit 21: Income funds witness sharp outflow in December



Source: AMFI, ICICIdirect.com Research

Exhibit 22: AUM remains stable on consistent inflows



Source: AMFI, ICICIdirect.com Research

Ultra-short-term fund returns are attractive on a risk adjusted basis

Short-term funds will benefit as the bond curve reverts to an upward slopping curve. Credit opportunities funds earn the highest accrual and are the best in the category

Dynamic bond funds are suitable for all types of investors and for longer duration. They can take exposure to all durations as per the interest rate outlook and switch between G secs and corporate bonds

Recommended funds

Ultra Short Term Funds

- Birla Sun Life Savings Fund
- ICICI Prudential Flexible income

Short Term Funds

- Birla Sunlife short term fund
- HDFC Short Term Fund
- ICICI Pru Short Term Plan

Short Term Funds – Credit opportunities

- Birla Sunlife Short Term opportunities term
- HDFC Corporate debt opportunities
- ICICI Prudential Regular Savings

Long term/Dynamic

- Birla Sunlife income plus
- ICICI Prudential Dynamic Bond Fund
- IDFC dynamic bond fund

(Refer www.icicidirect.com for details of the fund)

View
Short-term: Neutral
Long-term: Neutral

Gilt Funds

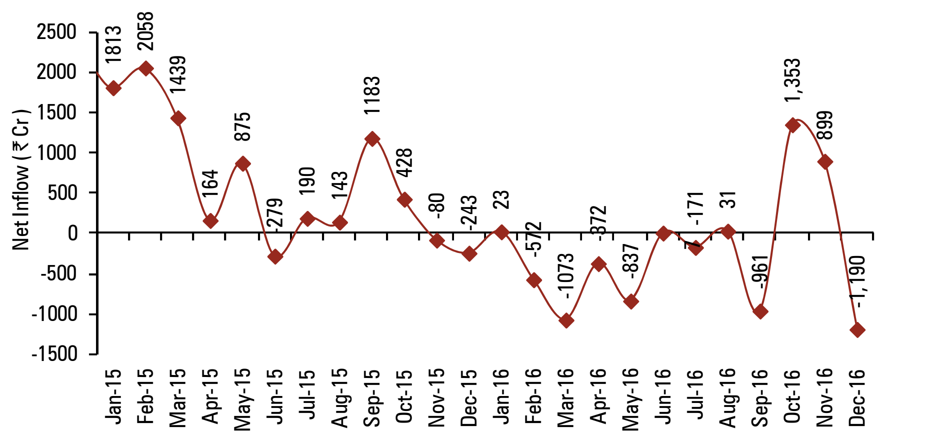
- Gilt funds delivered one year return of 16% as on January 19, 2017 as a fall in G-Sec yield over the last six months has helped G-Sec funds to outperform. Lower inflation, better monsoon and higher amount of OMOs by the RBI helped bring down yields
- The liquidity situation was tight at the start of 2016 but eased off significantly post March 2016
- As old currency notes are deposited with banks, bank deposit growth will witness a pick-up and currency in circulation will moderate resulting in improved banking sector liquidity. From an RBI standpoint, this move does have the potential to open up room for further rate cuts (beyond the last 25 bps that most in the market were broadly looking for). This is because, so long as CPI is within the 4–5% band, RBI seems to be currently focusing on growth. This measure has the potential to both reduce inflation and impact growth. Hence, from that standpoint, it may be logical to expect more room from the RBI. Finally, global developments as always will impact the potential for domestic easing
- Inflation is not a policy concern currently with the RBI Governor saying inflation remains on a projected trajectory. Overall, assuming normal monsoons and current levels of oil and exchange rates, the RBI expects CPI to be 'inertial' and around 5% by the end of FY17. However, it emphasises that implementation of the Seventh Pay Commission has not been factored in these projections whereas risks remaining broadly in the balance from monsoon and geopolitical events
- We believe higher expectations of rate cut and significant improvement in liquidity bode well for duration funds. Depending on risk return appetite, investors should increase allocation to duration funds

Recommended funds

- Birla Sun Life Gilt Plus - PF Plan - Regular
- ICICI Prudential LT Gilt Fund - PF Option - Regular

(Refer to www.icicidirect.com for details of the fund)

Exhibit 23: Gilt funds witness MoM decline in inflow during December 2016



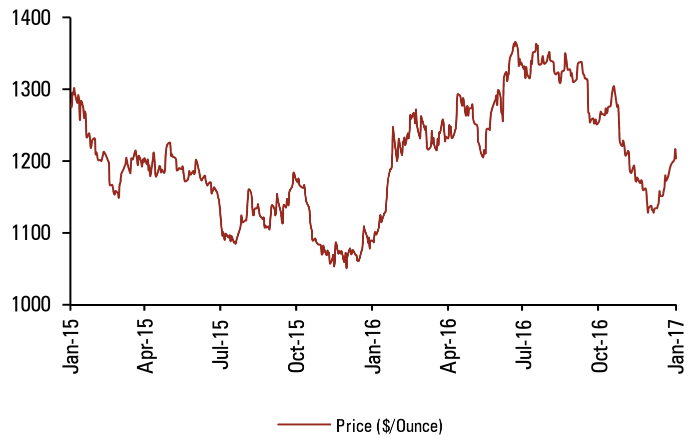
Source: AMFI, ICICIdirect.com Research

Gold: Likely to be range bound

- The year 2016 turned out to be extremely volatile with the biggest first-half rally in almost four decades giving way to a retreat as the focus shifted from political uncertainty on the Brexit vote to US monetary policy. International gold prices, after rising 26% in the first half, fell almost 16% in the second half to end the calendar year with 7% gains
- Gold extended losses in December led by the US Fed's decision to hike the rate by 0.25% and pointing at a faster pace of rate hike in 2017. Gold prices cooled off significantly after the US election in November 2016
- Gold continues to fall as investors flee bullion backed funds on bets stronger economic growth will bolster the Federal Reserve's case to raise US interest rates. Gold prices declined almost 2.2% for the month in global markets. Indian prices fell more at 3.5% during the same time due to the fall in demand led by the cash crunch following the demonetisation of high value currency notes
- Going forward, the focus will be on the Fed's future stance. Apart from that, the trend in US dollar, the fiscal policy adopted by the US President, and development in eurozone will determine the future prices of gold. On the domestic front, the key development guiding gold prices will be trend in consumption demand by Indian households
- Prices in the near term may be range bound as the interest rate trajectory in the US is up while volatility surrounding currency markets and growth concerns provide support

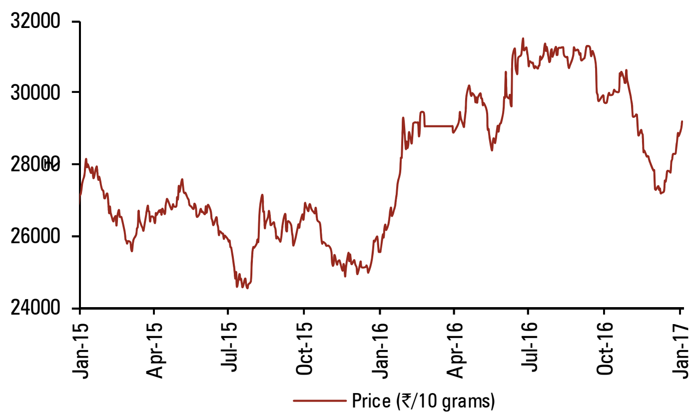
Gold prices in the near term may be range bound as the interest rate trajectory in the US is up while volatility surrounding currency markets and growth concerns provide support

Exhibit 24: Gold prices witness some profit booking post sharp rally since start of year



Source: Bloomberg, ICICIdirect.com Research

Exhibit 25: …domestic prices follow global trend



Source: Bloomberg, ICICIdirect.com Research

Model Portfolios

Equity funds model portfolio

Investors who are wary of investing directly into equities can still get returns almost as good as equity markets through the mutual fund route.

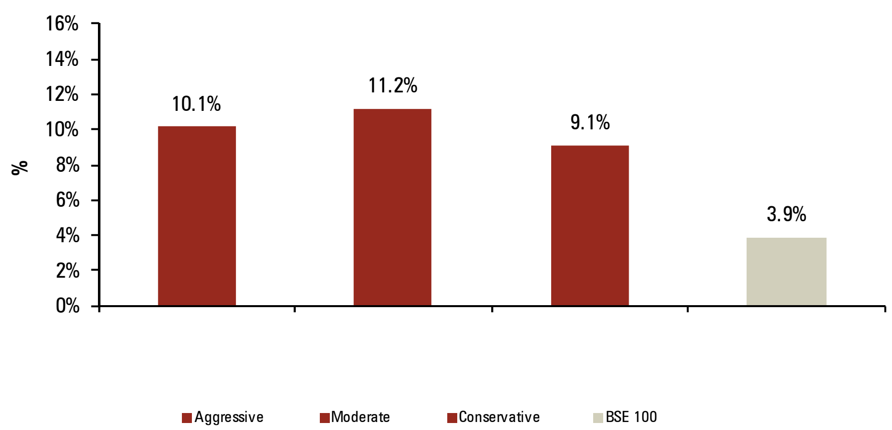
We have designed three mutual fund model portfolios, namely, conservative, moderate and aggressive mutual fund portfolios. These portfolios have been designed keeping in mind various key parameters like investment horizon, investment objective, scheme ratings, and fund management.

Exhibit 26: Equity model portfolio

Particulars	Aggressive	Moderate	Conservative
Review Interval	Monthly	Monthly	Quarterly
Risk Return	High Risk- High Return	Medium Risk - Medium Return	Low Risk - Low Return
Funds Allocation	% Allocation		
Franklin India Prima Plus	20	20	20
Birla Sunlife Frontline Equity	-	20	20
ICICI Prudential Dynamic Plan	-	-	20
SBI Bluechip Fund	20	20	20
ICICI Prudential Value Discovery	20	20	-
HDFC Midcap Opportunities	20	10	-
Franklin India High Growth Companies Fund	20	-	-
Birla SL Dynamic Bond Fund	-	10	20
Total	100	100	100

Source: ICICIdirect.com Research

Exhibit 27: Model portfolio performance: One year performance (as on December 30, 2016)



Source: Crisil Fund Analyser, ICICIdirect.com Research

Debt funds model portfolio

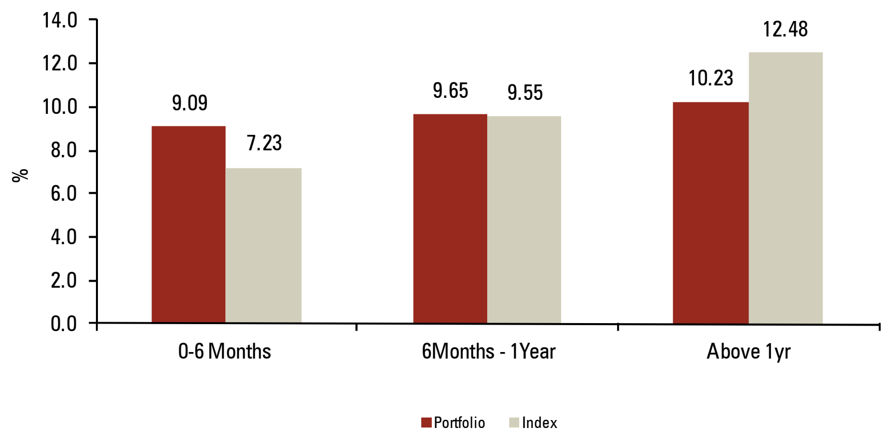
We have designed three different mutual fund model portfolios for different investment duration viz. less than six months, six months to one year and above one year. These portfolios have been designed keeping in mind various key parameters like investment horizon, interest rate scenarios, credit quality of the portfolio and fund management, etc.

Exhibit 28: Debt funds model portfolio

Particulars	Time Horizon		
	0 – 6 months	6months - 1 Year	Above 1 Year
Objective	Liquidity	Liquidity with moderate return	Above FD
Review Interval	Monthly	Monthly	Quarterly
Risk Return	Very Low Risk - Nominal Return	Medium Risk - Medium Return	Low Risk - High Return
Funds Allocation	% Allocation		
Ultra Short term Funds			
Birla SL Savings Fund	20		
ICICI Pru Flexible Income Plan	20		
Short Term Debt Funds			
Birla Sunlife Short Term Fund	20	20	20
Birla Sunlife Short Term Opportunites Fund			20
Reliance Regular Savings Fund			20
HDFC Short Term Opportunities Fund	20	20	
ICICI Prudential Regular Savings			20
ICICI Prudential Short Term Fund		20	
IDFC SSI Short Term	20	20	
UTI Short Term Income Fund		20	
HDFC Corporate Debt opportunities fund			20
Total	**100**	**100**	**100**

Source: ICICIdirect.com Research

Exhibit 32: Model portfolio performance: One year performance (as on December 30, 2016)



Source: Crisil Fund Analyser, , ICICIdirect.com Research

**Index: 0-6 month's portfolio – Crisil Liquid Fund Index; 6 months-1 year – Crisil Short term Index Above 1 year: Crisil Composite Bond Index*

Top Picks

Exhibit 33: Category wise top picks

Equity	
Category	Top Picks
Largecaps	Birla Sun life Frontline Equity Fund ICICI Pru Focused Bluechip Fund SBI Bluechip Fund
Midcaps	HDFC Midcap Opportunities Fund Franklin India High Growth Companies Fund SBI Magnum Global Fund
Diversified	Franklin India Prima Plus Fund Reliance Equity Opportunities Fund ICICI Pru Value Discovery Fund
ELSS	Axis Long Term Equity Fund ICICI Pru Tax Plan Franklin India Taxshield

Debt	
Category	Top Picks
Liquid	HDFC Cash Mgmnt Saving Plan ICICI Pru Liquid Plan Reliance Liquid Treasury Plan
Ultra Short term	Birla Sunlife Savings Fund Reliance Medium Term Plan ICICI Pru Flexible Income Plan
Short term	Birla SL Short term Fund HDFC Short Term opportunities Fund ICICI Pru Short term Plan
Credit Opportunities	Birla SL Short Term Opportunities Fund Reliance Regular Savings Fund ICICI Pru Regular Savings Fund
Income Funds	ICICI Pru Income Fund Birla SL Income Plus - Regular Plan UTI Bond Fund
Gilt	ICICI Pru Gilt Inv. PF Plan Birla SL Constant Maturity 10 year Gilt Plan
MIP Aggressive	Birla SL MIP II - Savings 5 plan ICICI Pru MIP 25 DSP Blackrock MIP

(Refer www.icicidirect.com for details of the fund)

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