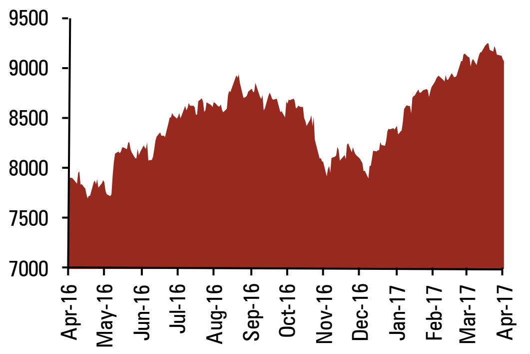
April 20, 2017

# Mutual Fund Review

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

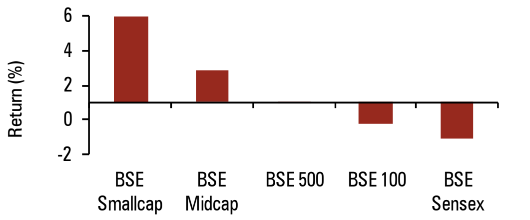
# Equity Markets

**Nifty 50: Markets continue to make new highs in 2017**




*Source: Bloomberg, ICICIdirect.com Research*

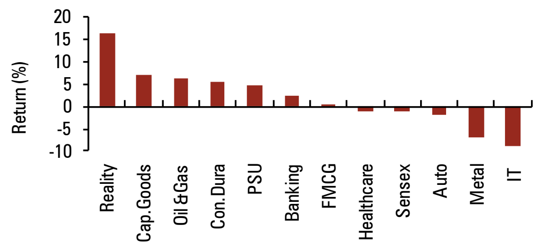
**Smallcap and Midcap indices continue to outperform**




*Source: Bloomberg*

*One month returns till April 18, 2017*

**Reality & Capital goods stock saw value buying while FMCG rebounded post correction after demonitisation**




*Source: Bloomberg*

*One month returns till April 18, 2017*

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## Update

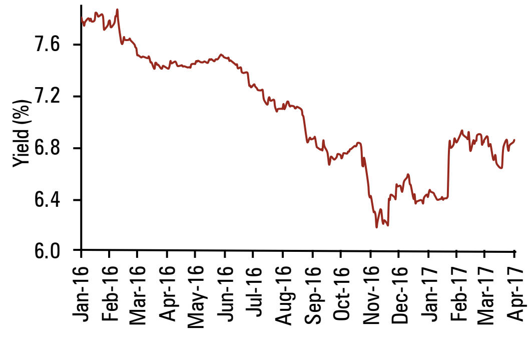
- Indian equity markets extended gains and rallied further to make a new all-time high in April 2017. The markets have seen a sharp rally since December 2016 post the demonetisation led correction
- The outcome of state elections, passage of GST bill in Parliament and positive global market on dovish commentary helped the market to continue its rising trajectory
- The broader midcap indices continued to outperform headline indices as investors continued to emphasis more on future earnings growth potential compared to valuations
- Market sentiment was helped by record buying by foreign investors. Foreign portfolio investments in debt and equity markets in March were at US$3.3 billion and US$2.5 billion, respectively. On the other hand, net flows by domestic institutional investors were negative in March after being net buyers for six consecutive months
- Consumer Price Index (CPI) based inflation rose from 3.17% in January 2017 to 3.65% in February 2017 led by higher food and fuel inflation. Food inflation jumped to 2.01%, from 0.6% in January 2017, as the fall in vegetable prices was less than the previous month. Inflation in other categories also went up fruits, oils and fats, reflecting a pick-up in global prices of edible oils
- Inflows into domestic mutual funds remain strong. Even more importantly, a significant part of fresh flow appears to be committed for longer term. A steady rise in systematic investment plans (SIP) and pension fund contributions indicate towards this trend. Given the longer term nature of inflows, fund managers are in a better position to take investment calls on relatively smaller and midsized companies where the business cycle is more volatile & comparatively untested. However, the growth potential is significantly higher compared to larger stable businesses. The market breadth, therefore, continues to remain positive. Unattractiveness of other asset classes has also let to higher allocation

## Outlook

- The outcome of the recent state election, particularly in Uttar Pradesh, indicates a structural shift towards development based politics. Following the landmark election verdict, investor expectations have risen that the BJP will move ahead on vital economic reforms
- The Lok Sabha passed the much-awaited Central Goods and Services Tax (CGST) Bill, Integrated GST Bill, Compensation GST Bill and Union Territory GST Bill 2017 paving way for the July 1, 2017 rollout. The implementation of GST will lead to formalisation of the economy and benefit the organised sector due to the shift in market pie from unorganised to organised
- The medium term outlook for the market remains positive. However, given the sharp run up in the last few months, some profit may be expected. Investors should avoid lumpsum investment at current levels and use any sharp correction as a buying opportunity. Investors should continue with their SIPs as any volatility in the markets, going forward, is likely to benefit over a period of time

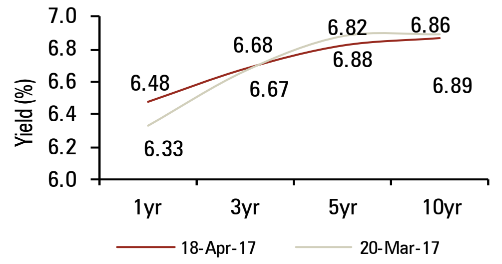
# Debt Markets

**G-sec yields stablised after rising sharply post RBI policy in February 2017**



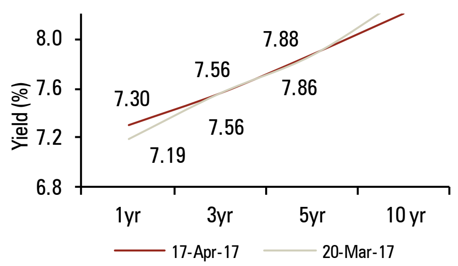

*Source: Bloomberg*

**Shorter maturity G-sec yields moved up following 10 year which moved moved up immediately post RBI policy**




*Source: Bloomberg, ICICIdirect.com Research*

**Corporate bond yield curve moved up following G-Sec yield**




*Source: Bloomberg, ICICIdirect.com Research*

## Update

- The RBI's Monetary Policy Committee on April 6 kept the repo rate unchanged at 6.25% and hiked the reverse repo rate by 25 bps to 6.0%. It has cut the marginal standing facility rate and bank rate by 25bps to 6.50%. RBI narrowed the interest rate corridor to ensure system rates remain within a narrow range around repo rate level as surplus liquidity resulted into short-term rates falling towards reverse repo rate levels
- Surplus liquidity in the banking system declined from peak of a ₹ ~8 trillion (January 4, 2017) to ~₹ 4.8 trillion in March and further down to ~₹ 3.1 trillion by end March. There was no incremental CRR hike, which was being feared by some market participants. Instead, the MPC indicated that reverse repo operations (preferably longer term), MSS operations, cash management bills and OMO would be the preferred modes of combating a liquidity-flush system. Among these, OMO would be slightly concerning to bond markets due to the firming effect it would have on yields
- By narrowing the liquidity adjustment facility (LAF) corridor to +/- 25 bps, the RBI is seeking short-term rates to trend around the 6% mark instead of the recent 5.75% mark
- Major upside risks to inflation trajectory as outlined by the RBI, viz. El Nino and HRA allowance increase under Seventh CPC are supply led risks. The RBI is likely to be more concerned about the second order effects to these in its quest to meet the revised inflation targets of 4.5% average in H1FY18 and 5% in H2FY18. Meeting the stated target for H2 would also be jeopardised by unfavourable base effects

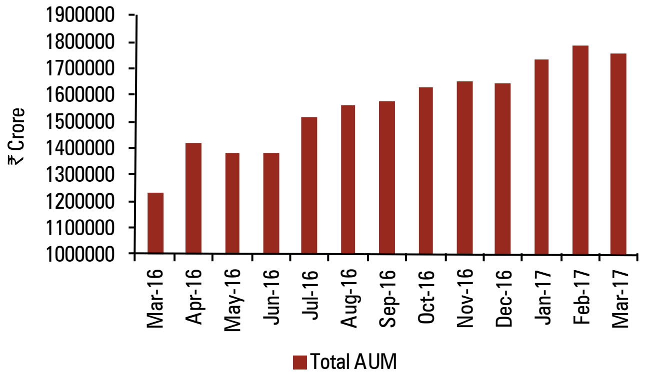
## Outlook

- The benchmark 10 year G-sec yield moved up around 10 bps post the policy announcement to 6.76%. G-sec yield is likely to remain under pressure in the near term. Bond markets are likely to focus on medium term inflation trajectory, which has upside risk with respect to RBI's target. Hence, investors should avoid G-sec or long duration funds. Short-term bonds remain better placed and are likely to outperform long bond as they are less sensitive to the policy outlook as well as to global risks
- Globally, the "reflation trade" is dying, which is a bet by investors that expansionary monetary and fiscal policies will bring in stronger economic growth and rising inflation. The 10-year breakeven inflation rate in the US peaked at 2.08% in January 2017. Since then, it has been in a steady decline. Accordingly, global G-sec yields have seen a decline from their highs during the year
- The downward movement in G-sec yields, particularly in 10 year looks limited from current levels of around 6.80%. Fresh investment in duration funds should, therefore, be avoided
- Short-term funds with accrual strategy are better placed in the current volatile environment. The pressure on corporate bonds yields may also remain in the near term. Fresh investment should be made in a staggered manner over the next two or three months

## MF industry synopsis

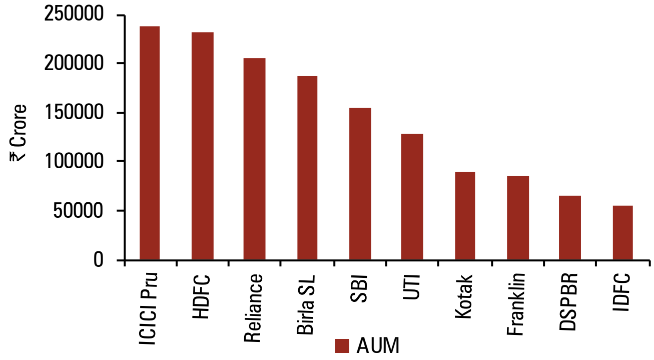
- Mutual funds witnessed strong inflows in the last three years leading to strong growth in overall assets managed by mutual funds. Total assets managed by mutual funds have touched a high of ₹ 17.89 lakh crore in February 2017 (₹ 17.54 lakh crore in March 2017), increasing ~42% YoY, of which ~44% was held by income funds and ~31% by equity and ELSS funds
- In FY17, the mutual fund industry saw an inflow of ₹ 3.43 lakh crore into the Indian mutual fund industry. Out of the total inflow, ₹ 70367 crore came into equity and ELSS funds
- Despite volatility 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**



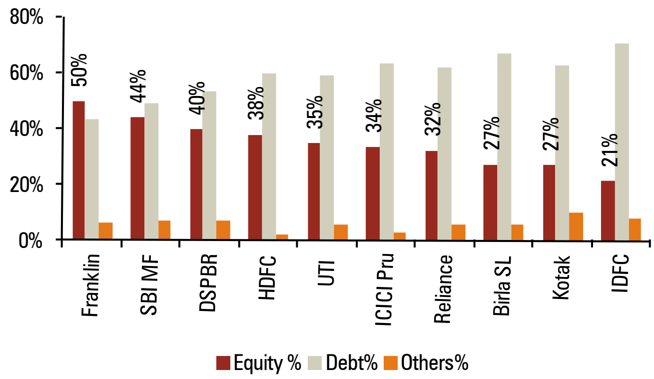

*Source: AMFI*

**Exhibit 2: AUM of Top 10 AMCs**



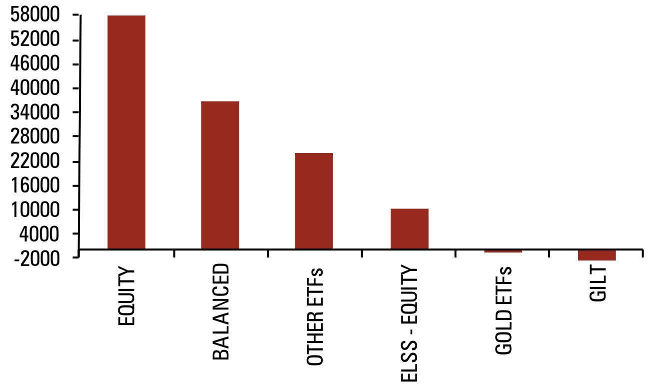

*Source: ACE MF*

**Exhibit 3: Fraklin Templeton has highest proportion of equity AUM as percentage of its AUM**




*Source: ACE MF. Data as on March 2017*

**Exhibit 4: Within retail category, equity funds witness significant inflows in FY17 …**




*Source: ACE MF. Data as on March 2017*

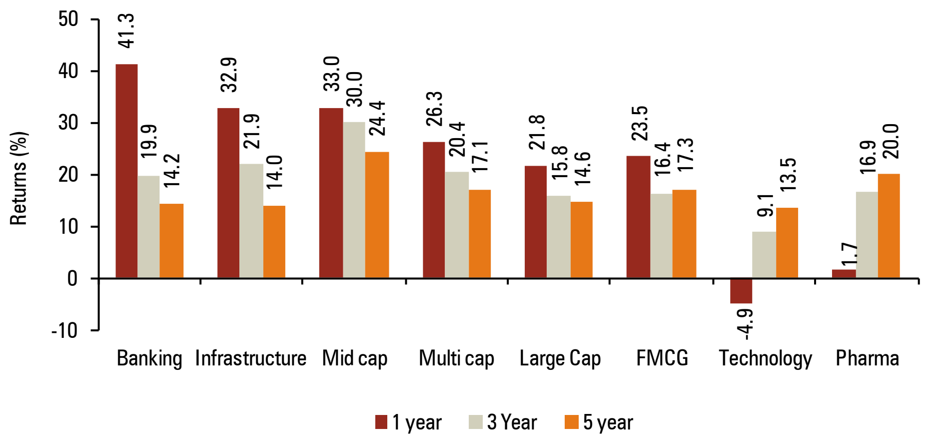
## MF Category Analysis

## Equity funds

- Banking funds were top performers in March 2017, having outperformed other sectoral/thematic funds like infrastructure, pharmaceuticals, information technology (IT) & fast moving consumer goods (FMCG) by a wide margin
- In terms of market cap-based funds, midcap funds continued their dominance over large cap funds. Overall, midcap funds performed better than all other equity categories bar banking funds
- H1B visa issues and US government action fears persisted as overhangs over technology stocks and consequently, technology funds. Pharma fund performance recovered slightly over the previous months into the positive territory but concerns over pricing, compliance issues and a fear of shrinking growth in the large US market remain

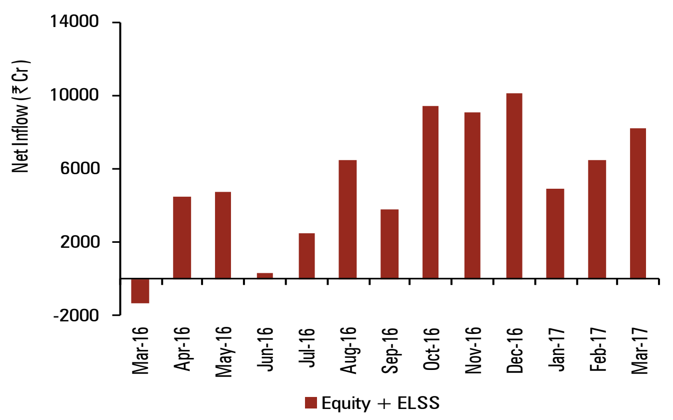
Reshuffling of portfolio was seen post Union Budget with beaten down sectors rallying sharply outperforming defensive sectors

**Exhibit 5: Banking funds outperform other categories while technology, pharma funds continue to be under pressure (returns as on March 31, 2017)**



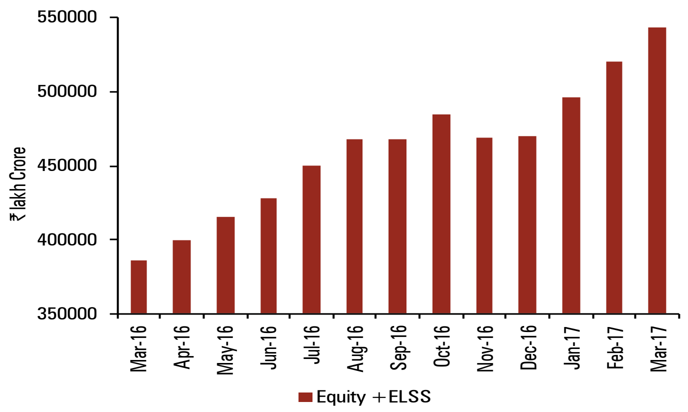

*Source: Crisil, ICICIdirect.com Research ; Returns over one year are compounded annualised returns*

**Exhibit 6: Equity funds witness very strong inflows in second half of FY17**




*Source: AMFI, ICICIdirect.com Research*

**Exhibit 7: Robust inflow in equity funds pushes up AUM to record high of ₹ 5.4 lakh crore**



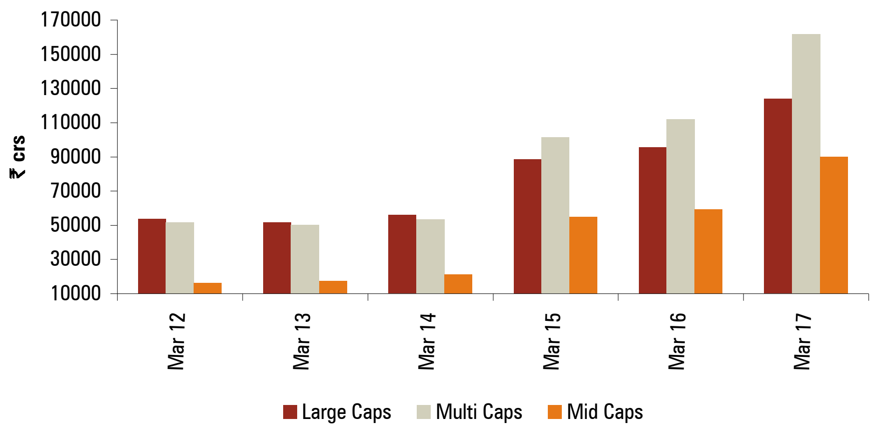

*Source: AMFI, ICICIdirect.com Research*

**View**
**Short term: Positive**
**Long-term: Positive**

## Equity diversified funds

- Equity diversified funds have witnessed robust growth over the last three years, with AUM within each sub-category rising substantially. In the last three years in FY14-17, the AUM of large cap funds rose 121%, multi cap funds AUM rose 203% and mid cap funds AUM rose 322%
- Over this time, while all three sub-categories have delivered strong performance (Exhibit 5), midcap funds have done exceedingly well and outperformed. This is reflected in the trend of broader indices outperforming bellwether indices over this time frame
- Multi cap funds are relatively more market cap-agnostic and hold positions in a wider range of companies than pure larg cap funds or pure mid cap/small cap funds. Multi cap funds generally hold around 50-60% of their portfolio in large cap stocks and 30-40% in mid cap stocks. They have benefited by capturing a part of the mid cap rally during this period and, thus, outperformed pure large cap funds
- In the present market scenario, bottom up stock picking across the market segment is more important than allocation to a particular segment or sub sector. Multicap funds offer the fund manager flexibility to allocate funds across all market segment and are, therefore, relatively better placed

**Exhibit 8: Robust AUM growth across all equity diversified fund sub-categories from 2015**




Large cap

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

Multi cap

- Franklin India Prima Plus Fund
- ICICI Prudential Value Discovery Fund
- Kotak Select Focus Fund

Midcap

- HDFC Mid-Cap Opportunities Fund
- Franklin India Smaller Companies Fund

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

## Equity Infrastructure fund

**View**
**Short-term: Positive**
**Long-term: Positive**

- Except for a few labour and subcontracting payment issues, demonetisation is unlikely to materially impact organised infrastructure players
- Government spending and focus push in sectors such as roads, railways, housing and power could lead to greater opportunities to infrastructure players, apart from the benefit of increased 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*

## Equity Banking Funds

**View**
**Short-term: Positive**
**Long-term: Positive**

- Demonetisation has created short-term headwinds for financials in the form of lower credit growth, rise in NPL in SME and real estate portfolio (LAP), with the caveat that actual impact has been lower than initially expected. Banks have benefited in the form of higher deposits and treasury gains. However, yields have hardened post RBI's February policy meet
- We remain optimistic on the banking sector keeping in mind the anticipated pick-up in credit offtake. Steady margins and peaking out of NPA cycle 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
- Reliance Banking Fund
- UTI Banking Sector Fund

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

## Equity FMCG

**View**
**Short-term: Positive**
**Long-term: Positive**

- Corporate results of Q3FY17 revealed that demonetisation pain was not as severe as early wisdom suggested. Companies in consumer oriented sectors like FMCG, paints and consumer durable used measures such as judicious promotional spends and extended credit period to trade channel partners to navigate demonetisation headwinds. Going forward, earnings results in the first full post-demonetisation quarter would be something to watch
- 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 categories

**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**

- Most players with US franchisee have received USFDA inspection/re-inspection in past six months. Apart from compliance issues, pricing pressures in US business is an additional overhang on the sector. The rupee's strong rally since January is a further headwind for the sector in the immediate term.
- However, despite these apprehensions, in the medium to long term we remain optimistic about the sector's prospects on the back of attractive valuations and decent growth expectations
- 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**

- Muted corporate results demonstrate the pain in the technology sector. Future expectations would look to management guidance as an indicator. Technology being a largely export-oriented B2B sector, faces additional pressure from the emergence of a stronger rupee
- 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*

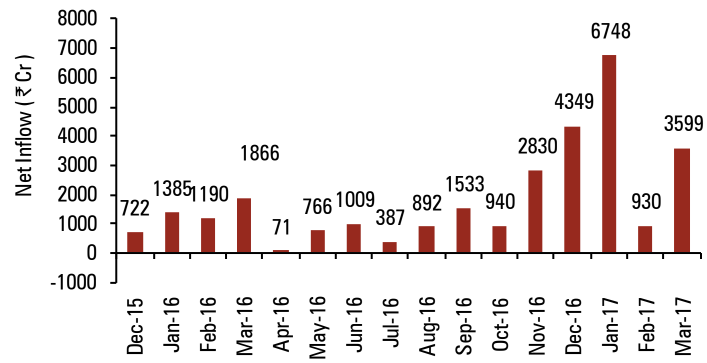
## Exchange Traded Funds (ETF)

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...

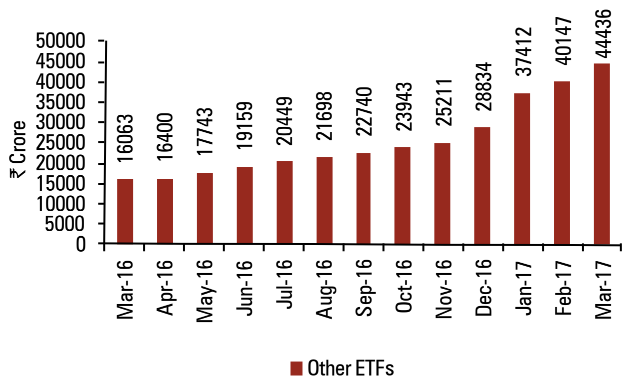
- In India, three kinds of ETFs are available: Equity index ETFs, liquid ETFs and gold ETFs
- An equity index ETF tracks a particular equity index such as the BSE Sensex, NSE Nifty, Nifty Junior, etc
- An equity index ETF scores higher than index funds on several grounds. The expense of investing in ETFs is relatively less by 0.50-0.75% in comparison to an index fund. The expense ratio for equity ETFs is in the range of 0.05-0.25% while for index funds the expense ratio varies in the range of 0.50-1.25%. 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 investment 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 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 ₹ 18,609 crore in exchange traded funds as on February 18, 2017.
- 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 9: Sensex/Nifty ETFs receiving consistently higher inflows…**




*Source: AMFI, ICICIdirect.com Research*

**Exhibit 10: …leading to consistent increase in AUM**




*Source: AMFI, ICICIdirect.com Research*

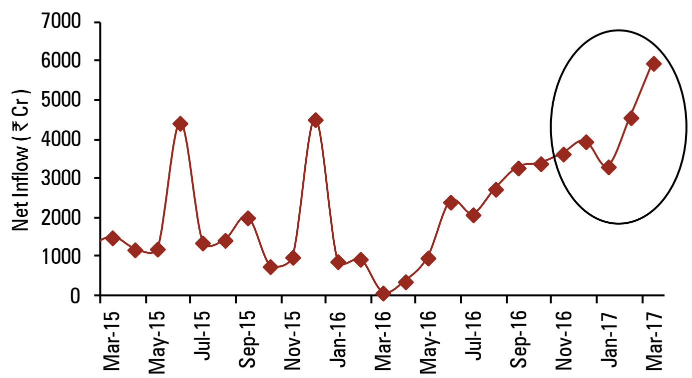
## Balanced funds

**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

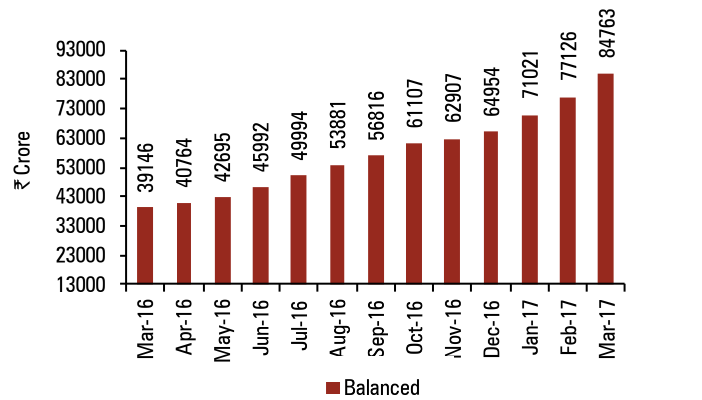
- Balanced funds category continued to receive significant flows, with the average monthly inflow (net) for FY17 amounting to ₹ 3050 crore
- The AUM of balanced funds has witnessed stellar increase during FY17, more than doubling to ₹ 84763 crore in March 2017 from ₹ 39146 crore in the year ago period
- Over the last two or three years, the balanced space has emerged as one of the fastest growing equity categories and offers an ideal gateway for first time retail equity investors. In FY17, Balanced funds AUM growth outpaced all other categories bar non-gold ETFs.
- 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 a year become tax free. Also, dividends declared by funds are tax free in the hands of the investor
- 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. Thus, balanced funds offer the benefit of equity taxation on debt component
- 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 minimum 65% participation on further upsides

**Exhibit 11: Strong inflow into balanced funds**




*Source: AMFI, ICICIdirect.com Research*

**Exhibit 12: YoY 116% growth in AUM of balanced funds**




*Source: AMFI, ICICIdirect.com Research*

**Preferred Picks**

- ICICI Prudential Balanced 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**

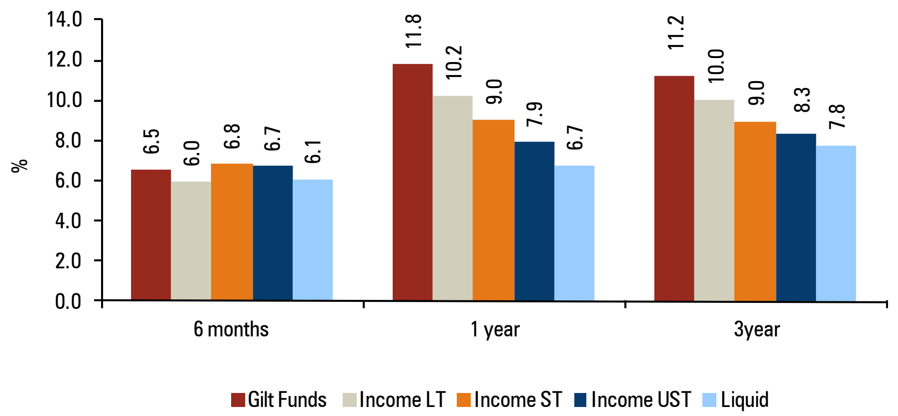
- ICICI Prudential Equity - Arbitrage Fund – Regular
- IDFC Arbitrage Fund - (Regular)
- Kotak Equity Arbitrage Fund
- SBI Arbitrage Opportunities Fund

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

## Debt funds

The rise in G-sec yields post RBI policy in February 2017 have reduced the return of G-Sec funds which prior to that were outperforming

**Exhibit 13: Category average returns**

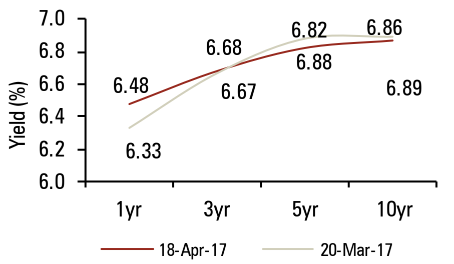



*Source: ACE MF, ICICIdirect.com Research*

*Note : Returns as on March 31, 2017; All returns are compounded annualised*

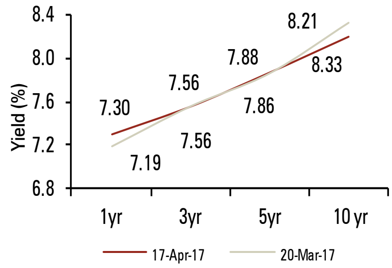
Interest rates moved up across G-Sec and corporate bond category

**Exhibit 14: G-sec yield curve**




*Source: Bloomberg, ICICIdirect.com Research*

**Exhibit 15: Corporate bond curve**



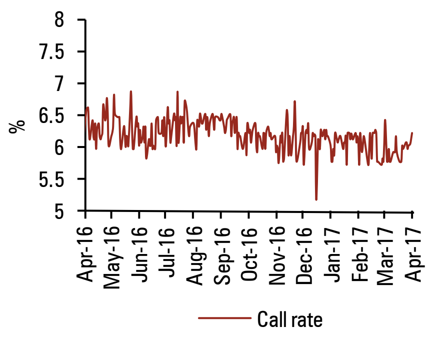

*Source: Bloomberg, ICICIdirect.com Research*

**View**
**Neutral**

## Liquid Funds

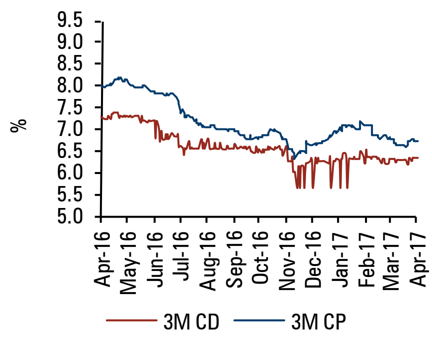
- Yields on money market instruments viz. less than one year CDs and CPs in which liquid fund predominantly invest, remain stable at lower levels due to ample liquidity
- In an uncertain environment, liquid funds remain well placed to park money with low volatility
- For less than a year, individuals 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 in the higher tax bracket (30% tax slab) and for corporate

**Exhibit 16: Call rates below repo rate**



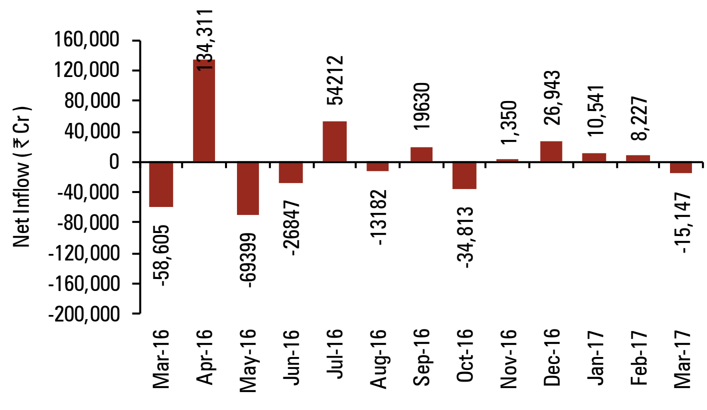

*Source: Bloomberg, ICICIdirect.com Research*

**Exhibit 17: …CP/CD yields**



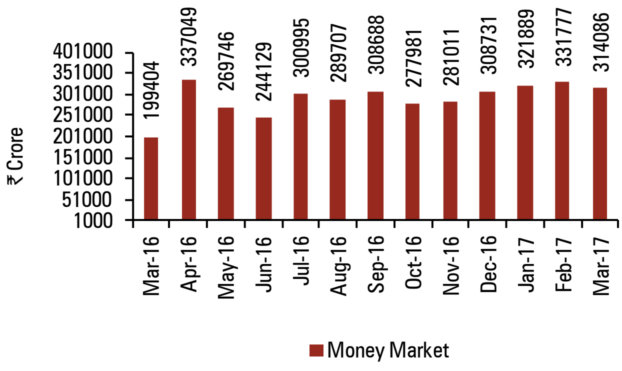

*Source: Bloomberg, ICICIdirect.com Research*

**Exhibit 18: Flows into liquid funds remain volatile on institutional activity**




*Source: AMFI, ICICIdirect.com Research*

**Exhibit 19: AUM remains healthy**




*Source: AMFI, ICICIdirect.com Research*

**Preferred Picks**

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

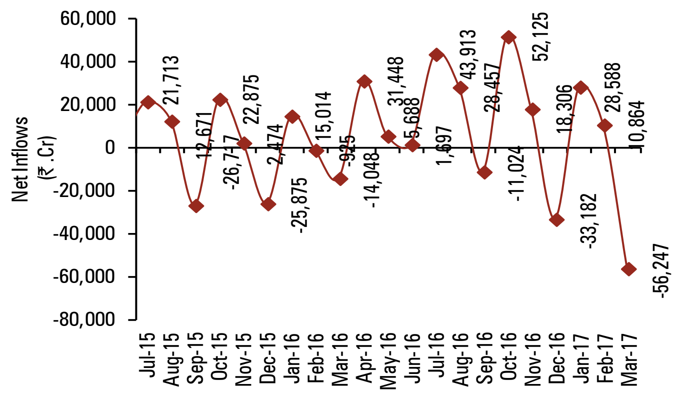
*(Refer to www.icicidirect.com for details of the fund)*

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

## Income funds

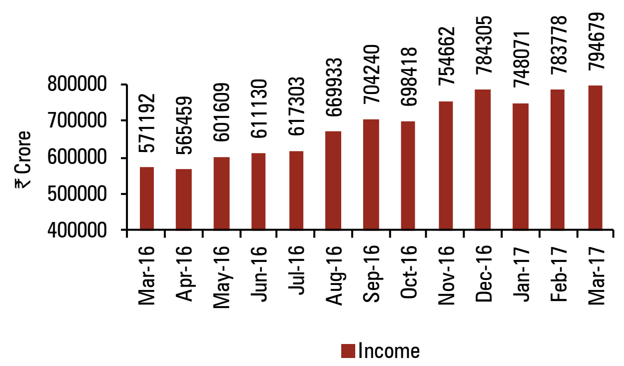
- RBI maintained status quo on policy rates and stance in its April 6 policy meet. Observers drew encouragement from the central bank's targeting of surplus liquidity in the system post demonetisation and strong foreign flows. Persistence of core inflation could set a floor on further downward movements in headline inflation. MPC highlighted possible El Nino effect overhang on monsoons, effects of Seventh Central Pay Commission disbursals and one-time effects from GST rollout in its assessment of balanced risks over future inflation trajectory. The same lend cautious outlook on G-sec yield in the near term. Benchmark 10 year G-sec yield has hardened approximately 40 bps since the February shift in RBI's stance from 'accomodative' to 'neutral'.
- Allocation to pure G-Sec or duration funds should be avoided given their historical outperformance and G-Sec yield trading at the lower end of its historical range. Crisil 10 Year Gilt index has delivered 38% return in the last three years and is likely the return will be significantly lower, going forward
- 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 20: Income funds witness sharp outflow in March**




*Source: AMFI, ICICIdirect.com Research*

**Exhibit 21: AUM remains stable on consistent inflows**




*Source: AMFI, ICICIdirect.com Research*

**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

- RBI maintained status quo on policy rates and stance in its April 6, 2017 policy meet. Observers drew encouragement from the central bank's targeting of surplus liquidity in the system post demonetisation and strong foreign flows. Persistence of core inflation could set a floor on further downward movements in headline inflation. MPC highlighted possible El Nino effect overhang on monsoons, effects of Seventh Central Pay Commission disbursals and one-time effects from GST rollout in its assessment of balanced risks over future inflation trajectory. The same lend cautious outlook on G-sec yield in the near term. Benchmark 10 year G-sec yield has hardened approximately 40 bps since the February shift in RBI's stance from 'accomodative' to 'neutral'.
- Allocation to pure G-Sec or duration funds should be avoided given their historical outperformance and G-Sec yield trading at the lower end of its historical range. Crisil 10 Year Gilt index has delivered 38% return in the last three years and the return will be significantly lower, going forward

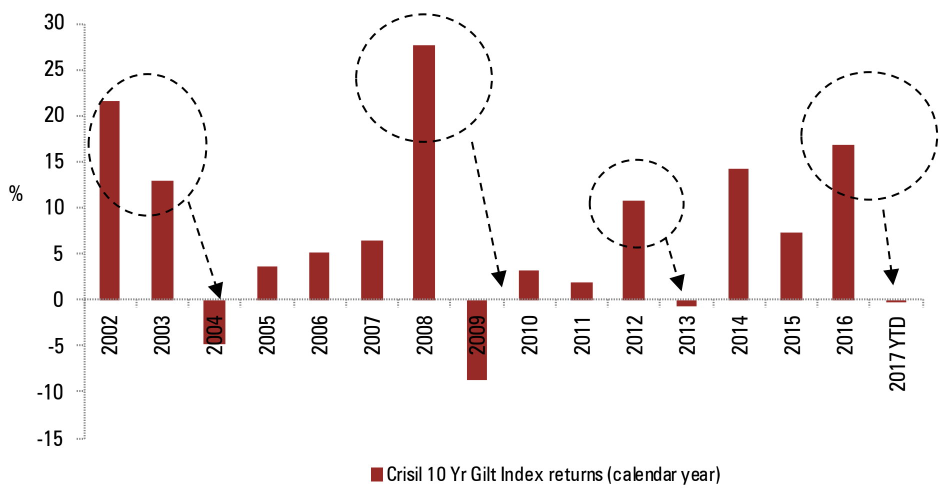
**Recommended funds**

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

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

- Historically, it has been observed that years of good returns in G-sec are followed by lower returns

**Exhibit 22: Historical trend in return from G-Sec indicates, going forward, returns likely to be lower**



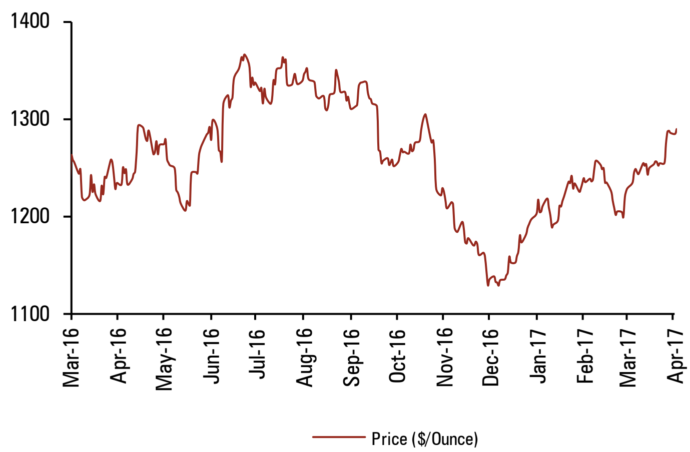

*Source: ACE MF*

Allocation to pure G-Sec or duration funds should be avoided given their historical outperformance and G-Sec yield trading at the lower end of its historical range. Crisil 10 Year Gilt index has delivered 38% return in the last three years. It is likely the return will be significantly lower, going forward

## Gold: Likely to remain range bound

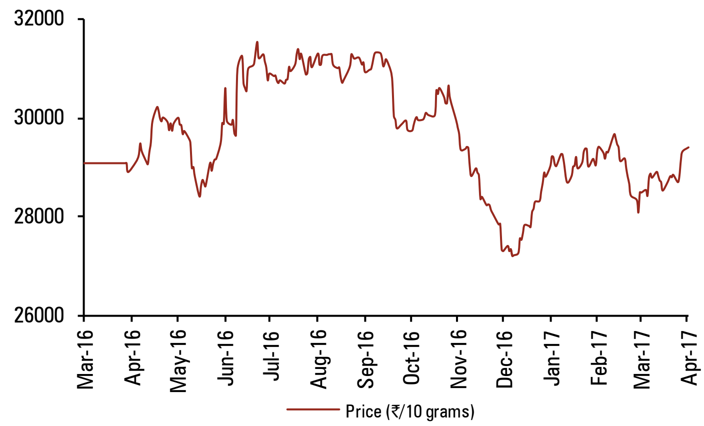
- Global gold prices posted ~3% spike in in the first two weeks of April 2017, rising from ~US$1249 at end-March to ~US$1285. This latest upsurge comes on the back of rising geopolitical tensions. The US' airstrike in Syria and squabble with North Korea alongwith the call for early general elections in the UK are some of the causal factors. Gold prices have moved up ~11.57% since December 2016.
- Gold prices in India have not kept up with the rise in global prices, surging just ~5.70% YTD. The strong rupee appreciation during this period (~4.85%) has capped the rise in rupee terms
- Previously, prices were suppressed 3.50% from February-end levels in the run up to mid-March US Federal Reserve meet before recovering towards the end of the month to close at a similar level, taking encouragement from Fed Chair's comments about the hike trajectory being gradual in nature.
- Gold has historically been looked at as a relatively risk-free, safe haven asset and its price movement both in India and globally, takes encouragement from any actual or perceived risk build-up on economic, political or natural fronts. With that being the case, several factors could dictate movement going forward
- Relief sentiment was evident in the gold market post the outcome of the US Federal Reserve Policy meet. The 25 bps rate hike decision was widely expected but observers drew encouragement that the pace of further hikes would be gradual. Consensus is for two more hikes in 2017. Medium term outlook for gold would remain centred around these expectations
- In the meantime, near term prices could remain range bound pending possible fallout from political uncertainty in Europe and the new US President's fiscal direction. Election outcomes in countries such as France, Germany and the Netherlands would be watched. Brexit process is gathering steam and there could be related ramifications in terms of Scotland's independence bid

**Exhibit 23: Gold prices rallied sharply on global geo political concerns**




*Source: Bloomberg, ICICIdirect.com Research*

**Exhibit 24: Indian prices rose relatively less due to currency appreciation**




*Source: Bloomberg, ICICIdirect.com Research*

# Model Portfolios

## Equity funds model portfolio

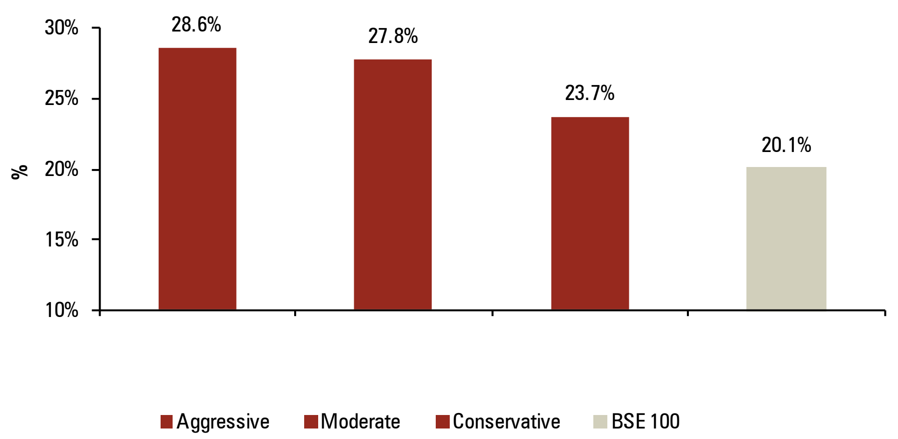
Investors who are wary of investing directly into equities can still get returns almost as good as equity markets through the mutual fund route.
We have designed three mutual fund model portfolios, namely, conservative, moderate and aggressive mutual fund portfolios. These portfolios have been designed keeping in mind various key parameters like investment horizon, investment objective, scheme ratings, and fund management.

**Exhibit 25: 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 26: Model portfolio performance: One year performance (as on March 31, 2017)**




*Source: Crisil Fund Analyser, ICICIdirect.com Research*

## Debt funds model portfolio

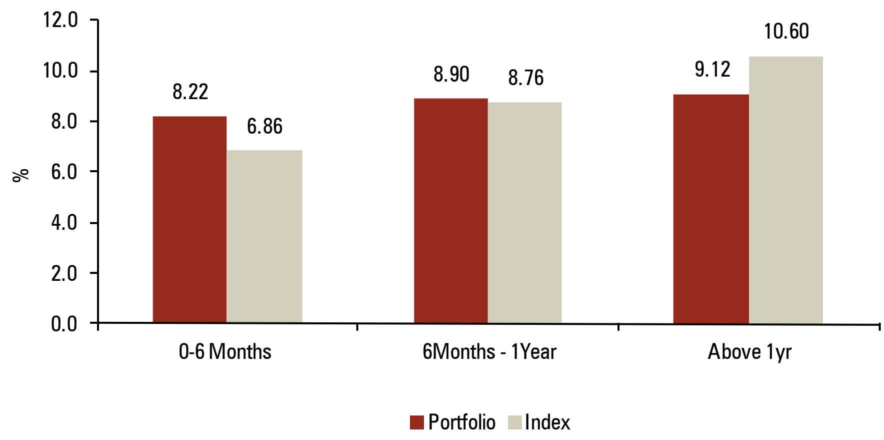
We have designed three different mutual fund model portfolios for different investment duration viz. less than six months, six months to one year and above one year. These portfolios have been designed keeping in mind various key parameters like investment horizon, interest rate scenarios, credit quality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

**Exhibit 27: 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 March 31, 2017)**




*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<br>ICICI Pru Focused Bluechip Fund<br>SBI Bluechip Fund |
| Midcaps | HDFC Midcap Opportunities Fund<br>Franklin India High Growth Companies Fund |
| Multicaps | Franklin India Prima Plus Fund<br>ICICI Pru Value Discovery Fund<br>Kotak Select Focus Fund |
| ELSS | Axis Long Term Equity Fund<br>ICICI Pru Tax Plan<br>Franklin India Taxshield |

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

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

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