

CRISIL FUND *INSIGHTS*

Monthly funds newsletter from CRISIL Research

Volume – 68 December 2016

Investment thoughts

New Year resolutions for investors

Every year-end, we make resolutions. It's a tradition. Most resolutions are related to habits, health or profession; financial planning is conspicuous by its absence. Let's end 2016 on a different note by giving some weight to financial planning for 2017. We have compiled a few resolutions an investor should consider to build a financially secure life.

Make a plan

Benjamin Franklin's quote - "By failing to prepare, you are preparing to fail" – will always ring true. Goals can be achieved only if there is a proper plan. Building an adequate retirement kitty, buying a home or planning for child's education / marriage will remain a dream unless there is a prudent financial plan to achieve those goals. Do it yourself or take the help of independent advisors to build a robust financial plan. Remember to factor in the expected income growth and inflation in the plan, thus adjusting your risk profile and investment accordingly.

The basic premise of financial planning is to identify goals, identifying the risk profile and allocating money to various asset classes as per the risk profile. While the first part of the plan - identifying goals - would be fairly covered by investors, risk profile and asset allocation are generally ignored. For instance, despite the age benefit and capacity to take risk, many young investors shy away from equity owing to its underlying volatility. But if one has the risk appetite and a longer time horizon, equity helps create wealth in the long term. Monthly savings of mere Rs 500 invested in an equity asset class can grow to a whopping Rs 16 lakh in 25 years assuming 15%¹ annualised returns. On the other hand, sticking to fixed income for its safety may not give superior inflation-adjusted returns in the long term. Asset allocation based on risk-return profile and horizon via mutual funds is a better option for retail investors, supported by benefits such as professional management, diversification, variety, low cost, tax efficiency and reasonable liquidity.

Plan for safety net and contingency fund

While investments are a part of the financial plan, safety net and contingency fund should be the top most priority. Safety net means buying of insurance policy, both personal and health. It gives you and your family financial risk coverage and a peace of mind. Ideally one should have life insurance coverage based on one's human life value (HLV), which is calculated on the basis of factors such as income, expenses, liabilities and investments. A contingency fund is also needed to tide over a crisis period such as job loss, business failures, etc. Quantum of the fund depends on the individual's choice, but by broad consensus it should be equivalent to your six months' income or more.

Stick to the plan

Planning should be beyond paper – it should be implemented. Sticking to the plan, and being disciplined in investing and savings helps one stay focused on achieving wealth creation goals. Discontinuing regular investments will either result in delay in goal achievement or insufficient amount to meet the goals. A simple example of this can be seen in the inflow / outflow trend of equity mutual funds (proxy for retail investors) for the past five years. Investors who mirrored the trend would have generated annualised returns of 6% while a disciplined investor with regular monthly inflows would have garnered annualised returns of 15% during this period.

Review periodically

It is important to review and make changes in the portfolio for various reasons; foremost being to weed out underperformers. In case of mutual funds, investor should review the fund's performance vis-à-vis the benchmark and peers, and if lagging then one should dig deeper for reasons of underperformance and take decisions accordingly.

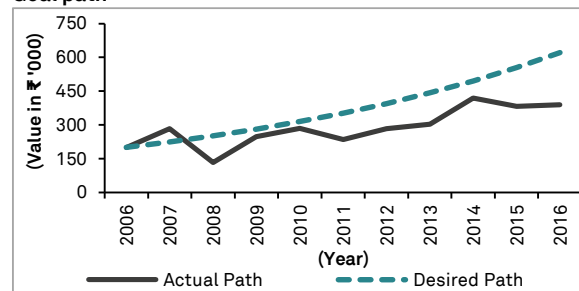
Periodic review of goals is also very important to ensure portfolio performance is on track and helps identify deviation and take corrective action. For example, let's assume if an investor invested Rs 2 lakh in November 2006 in an equity portfolio (represented by S&P BSE Sensex) to achieve a goal of Rs 6.20 lakh over the next 10 years, expecting 12% annualised returns. Volatility in 2008 left the investor short of the goal path; assuming he did not take any action, portfolio performance would have been short by Rs 2.32 lakh at the end of the tenth year. Regular portfolio review would have helped the investor take the appropriate action of topping up investments to meet the desired goal.

Investors also need to rebalance the portfolio among various asset classes at intervals as per the planned process, including contingencies. In case of the retirement goal, investors need to reduce allocation to a risky asset class such as equity as the retirement age nears. Additionally, target allocation needs to be altered owing to unplanned situations such as a windfall gain or some unexpected rise in financial responsibility wherein investors' risk capacity is increased or decreased respectively.

Summing up

The above list of resolutions is not exhaustive, and there is scope to lengthen it based on investors' past mistakes and new learnings. Investors should also be abreast of the knowledge of financial investments to navigate any impending opportunity / threat. Further, effective usage of technology such as digital wallets and freely available wealth trackers would help investors in their long-term financial plan.

Goal path



¹ S&P BSE Sensex has returned 15% annualised on a daily rolling basis for a 15-year period since 1979

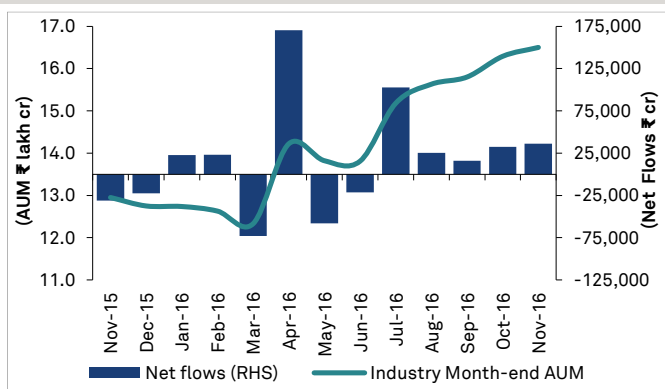
Market - Overview

Indices	% Change in Nov 2016	% Change in Oct 2016
Nifty 50	-4.65	0.17
S&P BSE Sensex	-4.57	0.23

Indicators	Nov 30, 2016	Oct 28, 2016
10 year Gsec	6.42%	6.79%
Monthly CPI Inflation	3.88%	4.20%

- Demonetisation was the biggest dampener for domestic equities in November 2016. Uncertainty about the US election outcome and likelihood of an interest rate hike by the US Federal Reserve (Fed) also pulled down indices.
- Indices fell sharply after the government announced on November 8, 2016, that notes of Rs 500 and Rs 1,000 would cease to be legal tender with immediate effect. Rs 500 notes were replaced and a new Rs 2,000 note was introduced.
- Correction in global markets amid mounting uncertainty over the outcome of the US presidential election also chipped off some gains from local indices.
- Probability of a US interest rate hike in December amid positive US economic cues and surprising election results dented sentiments.
- More losses were capped after the GST Council agreed to have a four-tier GST tax structure with lower rates for essential items and the highest for luxury and de-merit goods, which would also attract an additional cess.
- Most Nifty indices ended lower in November 2016. Nifty Metal index was the top gainer, up 4.40%, after metal prices globally gained on hopes that US President-elect Donald Trump's business-friendly policies for the world's largest economy will raise demand for metals globally.
- Demonetisation weighed on sectors such as real estate, auto and gems & jewellery. Nifty Realty and Nifty Auto were big losers – down 20.49% and 9.30%.

Mutual Fund – Overview



Category returns	Absolute Monthly Returns%	
	Nov-16	Oct-16
CRISIL – AMFI Large Cap Fund Performance Index	-5.09	1.05
CRISIL – AMFI Diversified Equity Fund Performance Index	-5.01	1.70
CRISIL – AMFI Small & Midcap Fund Performance Index	-6.97	2.93
CRISIL – AMFI ELSS Fund Performance Index	-5.75	1.91
CRISIL – AMFI Balance Fund Performance Index	-2.88	1.96
CRISIL – AMFI MIP Fund Performance Index	1.16	1.05
CRISIL – AMFI Gilt Fund Performance Index	5.20	0.55
CRISIL – AMFI Debt Fund Performance Index	2.41	0.64
CRISIL – AMFI Short Term Debt Fund Performance Index	1.84	0.66
CRISIL – AMFI Ultra Short Fund Performance Index	1.07	0.59
CRISIL – AMFI Liquid Fund Performance Index	0.62	0.52
Gold Funds (ETFs and FoFs)	-4.82	-3.58

- The Indian mutual fund industry's month-end assets under management (AUM) rose 1.3%, or by Rs 21,035 cr, to a new high of Rs 16.50 lakh cr in November, according to AMFI data. Robust inflows in equity, balanced and income funds contributed to the rise in assets.
- Positive investor sentiment continued to augur well for equity funds, which witnessed robust inflows of Rs 9,079 cr in the month. However, the category's AUM fell 3.3%, or Rs 16,134 cr, to Rs 4.69 lakh cr, marking its first fall in past 9 months owing to mark-to-market (MTM) losses.
- Balanced funds' AUM rose 2.9%, or by Rs 1,800 cr, to touch a new high of Rs 62,907 cr in the month on the back of consistent inflows. The category has been attracting sustained inflows for the past 30 months; last month saw inflows of Rs 3,632 cr - the highest year to date.
- Debt funds' AUM continued on their upward trajectory, inching towards the Rs 8 lakh crore mark, aided by strong inflows and growing investors' confidence. The category's assets rose 3.9%, or by Rs 29,643 cr, to Rs 7.84 trillion on the back of inflows of Rs 18,306 cr and MTM gains.
- Hopes of softer interest rates prompted investors to deploy Rs 899 crore in gilt funds, following inflows of Rs 1,353 crore in the preceding month. Strong inflows and MTM gains resulted in 10.3% uptick in AUM, to a

Top Stock Exposures – Nov 2016	
1.	HDFC Bank Ltd.
2.	ICICI Bank Ltd.
3.	Infosys Ltd.
4.	State Bank of India
5.	Larsen & Toubro Ltd.
6.	Maruti Suzuki India Ltd.
7.	Reliance Industries Ltd.
8.	Sun Pharmaceutical Industries Ltd.
9.	Axis Bank Ltd.
10.	ITC Ltd.

Top Sector Exposures – Nov 2016	
1.	Banks
2.	Pharmaceuticals
3.	Computers - software
4.	Engineering, designing, construction
5.	Passenger/utility vehicles
6.	Refineries/marketing
7.	Cement
8.	NBFC
9.	Housing finance
10.	Auto ancillaries

New Stocks Entries and Exits in Mutual Fund Portfolios – Nov 2016

Entries	Exits
Sheela Foam Ltd.	GMM Pfadler Ltd.
SpiceJet Ltd.	QAI (India) Ltd.
Seya Industries Ltd.	Sona Koyo Steering Systems Ltd.

record high of Rs 18,574 crore. Bond prices firmed up in the month owing to improvement in systematic liquidity post demonetisation, and on hopes of further rate cut by the RBI. However, the RBI's Monetary Policy Committee maintained status quo at its meeting on December 7.

- On the regulatory front, Sebi is working on the concept of 'passporting' - a unified regulatory mechanism that will allow Indian mutual funds to be sold in other Asian countries without the need for exclusive regulatory approvals from the latter.
- Sebi streamlined guidelines for investments by employees and trustees of mutual funds. It said parking of funds by them in fixed deposits, life insurance and products such as Kisan Vikas Patra will not come under the purview of rules aimed at curbing insider trading.
- Sebi may soon allow investors to buy mutual funds worth Rs 50,000 a month through e-wallets.
- Sebi is working on norms for instant redemption of liquid funds.
- AMFI and asset management companies will jointly spend over Rs 300 crore to create investor awareness and financial literacy.

Fund News

- Reliance Mutual Fund filed draft offer documents with Sebi to garner over Rs 3,000 crore for the government through the second tranche of CPSE Exchange Traded Fund.
- ICICI Prudential AMC appointed Asia Index to design and maintain the index for the second Central Public Sector Enterprises (CPSE) Exchange Traded Fund.

CRISIL Fund Rank 1 Schemes - Hybrid

Mutual Funds' Performance Report

Scheme Name	Point to Point Returns %						Inception Date	Average AUM (Rs.Crore)	Style Box	Std. Deviation (%)	Sharpe Ratio
	1 Month	3 Month	6 Month	1 Year	3 Years	Since Inception					
Balanced											
DSP BlackRock Balanced Fund	-4.78	-1.85	9.16	11.54	20.76	15.34	27-May-99	1465.24		12.00	1.06
MIP Aggressive											
Birla Sun Life MIP II - Wealth 25 Plan	0.01	2.28	12.52	17.34	16.81	10.48	22-May-04	1202.06		5.86	1.49
Kotak Monthly Income Plan	-0.12	2.94	9.69	14.60	13.49	8.08	2-Dec-03	128.43		4.22	1.33

CRISIL Mutual Fund Ranks as of September 2016

Point to Point Returns are as on November 30, 2016

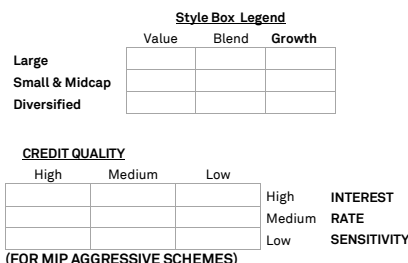
Returns are annualised for periods above 1-year, other wise actualised

Risk Ratios are annualised

Period for Risk Ratios is three years

For Sharpe Ratio the risk free rate is 7.75% - the average 91-day T-Bill auction cut-off rate for three years

Average AUM is 3-months average number as disclosed by AMFI for the period July-September 2016



Average Assets under Management - A Bird's Eye View

Mutual Fund Name	Jul-Sep 2016 (Rs.Crore)	Apr-Jun 2016 (Rs.Crore)	Change (Rs.Crore)	% Change	Mutual Fund Name	Jul-Sep 2016 (Rs.Crore)	Apr-Jun 2016 (Rs.Crore)	Change (Rs.Crore)	% Change
ICICI Prudential Mutual Fund	215986	193296	22690	11.74	Goldman Sachs Mutual Fund	7099	6500	598	9.20
HDFC Mutual Fund	213086	192776	20310	10.54	Indiabulls Mutual Fund	6731	6231	500	8.03
Reliance Mutual Fund	183129	167009	16120	9.65	Motilal Oswal Mutual Fund	6393	5421	972	17.94
Birla Sun Life Mutual Fund	168881	149093	19788	13.27	BNP Paribas Mutual Fund	6069	5411	658	12.15
SBI Mutual Fund	131554	119878	11676	9.74	Mirae Asset Mutual Fund	5235	3977	1259	31.65
UTI Mutual Fund	127333	112169	15165	13.52	PRINCIPAL Mutual Fund	5136	4666	470	10.07
Franklin Templeton Mutual Fund	73666	67593	6073	8.99	JPMorgan Mutual Fund	5065	5584	-519	-9.30
Kotak Mahindra Mutual Fund	70387	62874	7513	11.95	BOI AXA Mutual Fund	3636	2754	882	32.02
IDFC Mutual Fund	56656	54091	2565	4.74	Union KBC Mutual Fund	3387	3124	263	8.42
DSP BlackRock Mutual Fund	49852	41416	8436	20.37	Taurus Mutual Fund	2663	3196	-533	-16.66
Axis Mutual Fund	47179	40868	6311	15.44	Edelweiss Mutual Fund	2256	2032	223	10.98
Tata Mutual Fund	39691	35332	4359	12.34	Peerless Mutual Fund	971	927	43	4.69
L&T Mutual Fund	32667	28404	4263	15.01	IL&FS Mutual Fund (IDF)	970	947	23	2.46
Sundaram Mutual Fund	26700	24536	2164	8.82	Mahindra Mutual Fund	950	NA	NA	NA
DHFL Pramerica Mutual Fund	24473	21740	2733	12.57	Quantum Mutual Fund	806	703	102	14.56
Invesco Mutual Fund	22560	19039	3521	18.49	PPFAS Mutual Fund	668	663	4	0.66
LIC Mutual Fund	16453	13040	3413	26.17	IIFCL Mutual Fund (IDF)	388	379	9	2.43
JM Financial Mutual Fund	13612	12756	856	6.71	IIFL Mutual Fund	370	395	-25	-6.27
Baroda Pioneer Mutual Fund	11703	9117	2586	28.37	Escorts Mutual Fund	295	291	4	1.49
Canara Robeco Mutual Fund	9320	8099	1221	15.07	Sahara Mutual Fund	80	101	-22	-21.55
HSBC Mutual Fund	8503	7839	664	8.47	Shriram Mutual Fund	43	40	3	6.86
IDBI Mutual Fund	8128	6719	1410	20.98	Grand Total	1610729	1441027	169702	11.78

AAUM is the quarterly average number and excludes Fund of Funds

Fund Focus

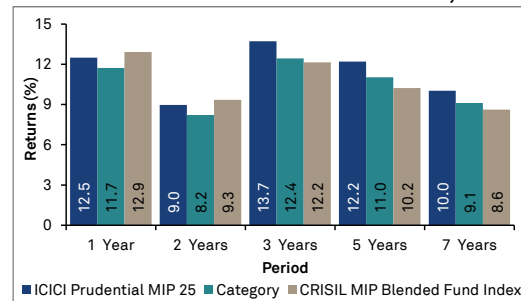
ICICI Prudential MIP 25 (CRISIL Fund Rank 2)

Launched in March 2004, ICICI Prudential MIP 25, is a hybrid fund that primarily invests in debt instruments, with maximum exposure to equity capped at 30% of total net assets. The fund seeks to generate regular income through investments primarily in debt and money market instruments. Its secondary objective is to generate long-term capital appreciation through equity investments. The fund's average AUM tallied at Rs 1,196 crore in September 2016. It has been ranked CRISIL Fund Rank 1 and 2 (top 30 percentile of the category set) under the MIP - Aggressive category over the past 13 quarters ended September 2016.

Performance

The fund has given 10.4% compounded annual growth rate (CAGR) since its inception versus 9.5% and 8.1% by the category (MIP Aggressive Funds as per CRISIL ranking - September 2016) and the benchmark (CRISIL MIP Blended Fund Index), respectively. In rupee terms, an investment of Rs 1,000 since the fund launch would have grown to Rs 3,500 as on December 14, 2016 compared with the category's returns of Rs 3,177 and the benchmark's Rs 2,696. The fund has also outperformed the category and its benchmark over most other periods analysed (see Chart).

Chart: Performance as on December 14, 2016



Note: Returns above one year are annualised

Even on a risk-adjusted basis, the fund has performed well. Analysis of the Sharpe ratio (a measure of its risk-adjusted returns - higher the better), over the past 3 years shows the fund has given a score of 2.1 vs 2.0 for the category's. MIP funds are also seen as investment option for regular dividends though it is not mandatory. The monthly dividend option of the scheme has given consistent dividends in past 36 months with average dividend yield of 0.54% during the period.

Portfolio Analysis

The fund's debt portfolio was primarily invested in safe bets, with 82% of the total debt holdings lying in top rated papers (AAA and A1+) and G-secs for the past three years ended November 2016. Further, the fund maintained average equity exposure of about 22% with banks, finance, pharmaceuticals, auto ancillaries and consumer non-durables forming the top five sectors during the same period.

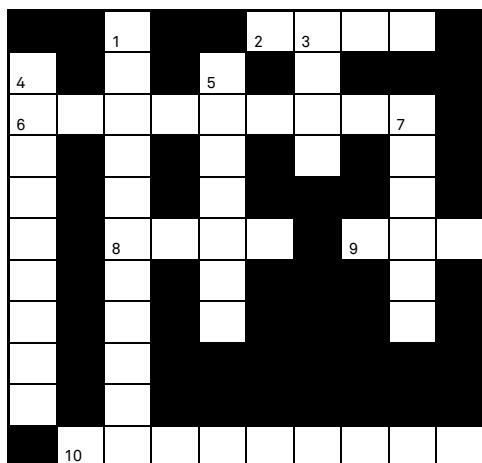
Fund Managers' Profile

Mr Manish Banthia, CA. & MBA, has overall experience of 13 years. He manages the debt portion of the fund.

Mr Rajat Chandak, B.Com.& MBA, has an overall experience of 8 years in fund management / research analysis. He manages the equity portion of the fund.

Every month, Fund Focus will feature one of the CRISIL Mutual Fund Rank 1 or 2 Schemes

Crossword Corner – boost your financial knowledge



Horizontal:

2. An accounting line item on the profit and loss statement that indicates the earnings of a company before interest and tax payments (1,1,1,1)
6. This offers financial protection in case of unexpected adverse events (9)
8. A profitability ratio that measures the return generated on funds invested by all stakeholders (1,1,1,1)
9. A mutual fund feature that enables investors to tide over the volatility associated with equities (1,1,1)
10. The process of realigning the weightings of one's portfolio of assets (9)

Vertical:

1. Information about an investor that conveys their risk-taking ability that is usually captured by means of a questionnaire (4,7)
3. An instrument that provides periodic interest payments for the investor (4)
4. The characteristic of an asset that enables investors to sell it easily for cash (9)
5. A sum paid by policyholders periodically to acquire insurance coverage (7)
7. A volatile asset class that generates superior long-term returns (6)

Answers

Horizontal: 2) EBIT (Earnings Before Interest and Taxes) 6) Insurance 8) ROIC (Return on Invested Capital) 9) SIP (Systematic Investment Plan) 10) Rebalance

Vertical: 1) Risk Profile 3) Bond 4) Liquidity 5) Premium 7) Equity

Contact Details

Deepak Mittal : +91 22 3342 8031; Deepak.Mittal@crisil.com
Vijay Krishnamurthy: +91 22 3342 8056; Vijay.Krishnamurthy@crisil.com
Dinesh Agarwal: +91 22 3342 3440; Dinesh.Agarwal@crisil.com
Amrita Sarkar : +91 22 3342 8405; Amrita.Sarkar@crisil.com
Sandeep Tripathi : +91 22 3342 8047; Sandeep.Tripathi@crisil.com
Rajnikant Tiwari: +91 22 3342 2954; Rajnikant.Tiwari@crisil.com

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

CRISIL is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

About CRISIL Research

CRISIL Research is India's largest independent integrated research house. We provide insights, opinion and analysis on the Indian economy, industry, capital markets and companies. We also conduct training programs to financial sector professionals on a wide array of technical issues. We are India's most credible provider of economy and industry research. Our industry research covers 86 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 5,000 primary sources, including industry experts, industry associations and trade channels. We play a key role in India's fixed income markets. We are the largest provider of valuation of fixed income securities to the mutual fund, insurance and banking industries in the country. We are also the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today the country's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgements and forecasts with complete objectivity. We leverage our deep understanding of the macro-economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. Our talent pool comprises economists, sector experts, company analysts and information management specialists.

CRISIL Privacy Notice

CRISIL respects your privacy. We use your contact information, such as your name, address, and email id, to fulfil your request and service your account and to provide you with additional information from CRISIL and other parts of S&P Global Inc. and its subsidiaries (collectively, the "Company") you may find of interest.

For further information, or to let us know your preferences with respect to receiving marketing materials, please visit www.crisil.com/privacy. You can view the Company's Customer Privacy at <https://www.spglobal.com/privacy>.

Last updated: April 2016

Disclaimer

CRISIL Research, a division of CRISIL Limited (CRISIL) has taken due care and caution in preparing this Report based on the information obtained by CRISIL from sources which it considers reliable (Data). However, CRISIL does not guarantee the accuracy, adequacy or completeness of the Data / Report and is not responsible for any errors or omissions or for the results obtained from the use of Data / Report. This Report is not a recommendation to invest / disinvest in any entity covered in the Report and no part of this report should be construed as an investment advice. CRISIL especially states that it has no financial liability whatsoever to the subscribers/ users/ transmitters/ distributors of this Report. CRISIL Research operates independently of, and does not have access to information obtained by CRISIL's Ratings Division / CRISIL Risk and Infrastructure Solutions Limited (CRIS), which may, in their regular operations, obtain information of a confidential nature. The views expressed in this Report are that of CRISIL Research and not of CRISIL's Ratings Division / CRIS. No part of this Report may be published / reproduced in any form without CRISIL's prior written approval.

Argentina | China | Hong Kong | India | Poland | Singapore | UK | USA

CRISIL Limited: CRISIL House, Central Avenue, Hiranandani Business Park, Powai, Mumbai – 400076. India
Phone: + 91 22 3342 3000 | Fax: + 91 22 3342 3001 | www.crisil.com

[in/company/crisil](https://www.crisil.com) [@CRISILlimited](https://twitter.com/CRISILlimited) [f/CRISILlimited](https://www.facebook.com/CRISILlimited) [yt/user/CRISILlimited](https://www.youtube.com/user/CRISILlimited)

CRISIL
An S&P Global Company