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Manage Your Money

Behavioural-Finance Tips to Boost Your Investing Skills

The study of investors' behavior offers some interesting mistakes you can recognize and avoid.

Finance professors aren't the first group of people you'd approach for investment advice. But if you end up in the same room with a couple of behavioral-finance economists, listen up.

They study the psychology and behaviors of investors to see where they make mistakes. If you learn to spot and correct these mistakes, it may mean greater profits.

Some insights behavioral finance has to offer read like common sense. It's no secret, for example, that many investors will focus obsessively on one investment that's losing money, even if the rest of their portfolio is in the black. That's called loss aversion.
Other behaviors, though, are subtler, more difficult to spot, and harder to correct. Here are a few

Overconfidence

Overconfidence refers to our boundless ability as human beings to think that we're smarter or more capable than we really are. One study found that 90% of the automobile drivers in Sweden rated themselves above-average drivers. Moreover, when people say that they're 90% sure of something, studies show that they're right only about 70% of the time.

Such optimism isn't always bad. Certainly we'd have a difficult time dealing with life's many setbacks if we were die-hard pessimists.

However, overconfidence hurts you as an investor when you believe that you're better able to spot the next Apple than another investor is. Odds are, you're not.

Studies show that overconfident investors trade more rapidly, because they think that they know more than the person on the other side of the trade. Trading rapidly costs plenty, and rarely rewards the effort.

To avoid overconfidence in your own investing, document and review your investment record. It's easy to remember your one stock that gained 50% in a single day, but records may reveal that most of your investments are under water for the year.

Mental accounting

If you've ever heard someone say that they can't spend a certain pool of money because they're planning to use it for their vacation, you've witnessed mental accounting in action.

Most of us separate our money into buckets--this money is for the kids' college education, this money is for our retirement, this money is for the house.

Investors derive some benefits from this behavior. Earmarking money for retirement may prevent us from spending it frivolously. Mental accounting becomes a problem, though, when we arbitrarily divide the components of total return: income and capital appreciation. Many investors feel that they can't spend capital appreciation--that's principal--but they can spend income.

Ironically, investors can erode their principal in a quest for generous income streams.

Take a bond fund that pays a high dividend, but generates a negative capital return. Your original investment would shrink, not grow, every year. Eventually, your dividends would shrink as well. That's because a bond fund's yield is nothing more than a percentage of its asset base. So even if a fund maintained, say, an 8% yield, the amount of its dividends would fall if its capital returns were negative, eating away its asset base.

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The best way to avoid the negative aspects of mental accounting is to concentrate on the total return of your investments, not simply one dimension of their return.

Anchoring

Ask residents on Mumbai to estimate the population of Pune and they'll anchor on the number they know--the population of their city--and adjust down, but not enough. Ask people in Kolhapur to guess the number of people in Pune and they'll anchor on the number they know and go up, but not enough. When estimating the unknown, you cleave to what you know.

For investors, anchoring behavior manifests itself in an unwillingness to part with laggard investments. Many time investors will cling to an investment waiting for it to "break even," to get back to what they paid for it. You may cling to subpar investments for years, rather than dumping them and getting on with your investment life. It's costly to hold onto losers, though, especially in a taxable account: If you realize a loss, at least you can use it to offset realized gains.

Some behavioral finance professors recommend that you ask yourself: Would I buy this investment again? And if you wouldn't, why are you continuing to own it?

Representativeness

This is a mental shortcut that causes you to give too much weight to recent evidence--such as short-term performance numbers--and too little weight to the evidence from the more distant past. As a result, you'll give too little weight to the real odds of an event happening.

Regret

You may not distinguish between a bad decision and a bad outcome. You'll feel regret after a bad outcome, such as a stretch of weak performance from a given stock, even if you chose the investment for all the right reasons. Regret can lead you to make a bad sell decision.

Fashions and fads

You may feel comfortable investing with the crowd, as in following a market guru or buying a popular mutual fund. Such behavior can lead to fading performance or inappropriate investments for your particular goals.

Of course, it's easy to recognize irrational behaviors; correcting them is another matter entirely. Still, if the insights of behavioral finance lead you to at least think twice before committing an irrational act of investing, that's a start.

Morningstar

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Reliance Top 200 Fund

Morningstar Analyst Rating: Bronze

Morningstar Opinion

The fund's recent change in investment strategy is a step in the right direction, as it complements the manager's inherent strengths.

Manager Sailesh Raj Bhan has managed Reliance Top 200 (erstwhile known as Reliance Equity Advantage) since its inception in Aug 2007, when it was run as a pure-play large-cap fund. The approach then involved investing only in the top 100 stocks by market cap. Also, the fund's sector weights were firmly aligned with that of the benchmark index's weights. Despite the limitations, the fund still managed to beat 64% of its large-cap peers during this period, but the strategy put considerable strain on the manager to execute it.

The investment approach was changed in Aug 2011 to address the limitations, and a more flexible approach was adopted. The fund's investment universe was expanded to the top 200 companies by market cap, thereby allowing investments in mid-caps, which now account for roughly 30% of assets. Although the portfolio's sector weights are still loosely aligned with those of the benchmark index BSE 200, the fund now takes bigger sector deviations than it previously did, so long as its tracking error vis-ß-vis the BSE 200 index is low. As of April 2012, Bhan's big bets in the health-care (12% vs 6% for BSE 200), technology (16% vs 11% for BSE 200), and energy sectors (15% vs 10% for BSE 200), among others, typified this approach. We also note that the manager has done away with taking cash calls, which is a positive in our view. Overall, we think the changes in the strategy are positive as they provide the manager sufficient flexibility to maneuver the portfolio, and also complement his investment style.

Bhan is an experienced portfolio manager, backed by solid research experience. His ability to choose fundamentally sound stocks and understand long-term trends is impressive. He puts strong emphasis on fundamental research when choosing stocks, wherein he looks for issues that have good growth prospects and healthy/rising ROEs. However, his qualitative filter means that only companies that have sustainable business models, strong management teams, and durable competitive advantages make the cut. Bhan also pays heed to the macroeconomic scenario, taking sector bets based on his views.

We note that Bhan's new strategy is more risky than the earlier one, given the larger deviations from the benchmark index in terms of stock/sector picks and the increased small/mid-cap exposure. However, we believe the research-intensive approach and the caliber of the investment team are well suited to such moves. We also draw comfort from the fine execution of similar broad-based strategies Bhan plies at other funds he runs for the fund house. In light of the above factors, we assign the fund our Bronze rating.

To read the entire report, please visit morningstar.co.in

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Fund Manager's View – IDFC Mutual Fund

Mr. Suyash Choudhary – Head – Fixed Income, IDFC Mutual Fund

He has over 11years of work experience. He has worked as a Fund Manager in IDFC erstwhile (Standard Chartered Mutual Fund) in the past for more than 6 years. He was previously designated as head of Fund Management, Fixed Income as HSBC Asset Management (India) Pvt. Ltd. wherein he was responsible for investments of all fixed income funds. He has been awarded for the performance of IDFC Dynamic Bond Fund as 7 Star rated Fund in Open ended Debt Category for Year ending December 2011.

We are at the brink of completing first-half of the calendar year 2012. How do you sum-up the first half of the year; and what is your outlook on fixed income markets for the remainder of this year? Any key concerns that come to your mind?

The first half of the year has been fairly eventful in the sense that it marks the turn of the monetary policy cycle. Thus the RBI delivered a higher than expected 50 bps repo rate cut in its April policy; while at the same time assessing limited further room for cuts. Apart from this, our three somewhat structural problems of tight system liquidity, pressure on external account, and tough fiscal situation remain. Another noticeable aspect of the first half has been from banks' perspective. For the first time since early 2011, divergence between credit and deposit growth rates of banks has begun increasing. This has muted the transmission of lower policy rates into lower deposit and lending rates of banks.

Despite the recent sharp fall in commodity prices and domestic growth concerns coming to the fore, we would hesitate to expect too much from monetary policy. This expectation is based on our assessment of the nature of this economic cycle. Thus the economic rebound since the 2008 crisis was based on a consumption stimulus from easier fiscal and monetary policy. Whereas, due to lack of investment demand, the so-called trend rate of growth for the economy has been steadily falling. Hence, over 2010 and 2011 actual growth may have been somewhat higher than trend. Our persistent inflation problems and widening current account deficit are both symptoms of an economy having grown beyond its means. Given this, a period of sub-trend growth is necessary to weed out these problems. If monetary stimulus were to come prematurely, the risk is that our macro-economic imbalances become further skewed down the road.

However, even assuming limited head-room for monetary policy, the outlook for fixed income is quite positive. Thus investors are getting good 'carry' incomes due to elevated rates which will be slow to fall given the macro-economic back-drop. Additionally, the sovereign curve provides one to two moves of 25 – 50 bps each year given that bond buy-backs from the market are a critical tool used by RBI for liquidity infusion. So overall fixed income continues to be a very attractive asset class.

What are you expecting from the upcoming monetary policy review on June 18, 2012?

The upcoming policy may provide an interesting perspective into RBI's thought process in light of recent slower growth and fall in commodity prices. Consensus market expectation is now of a minimum 25 bps repo rate cut. In fact recent bond price action suggests that even a 25 bps will disappoint unless it is accompanied with a quite dovish guidance. However, there are two points that are worth considering still. One, the more aggressive than anticipated rate hikes over 2011 were aimed precisely at slowing growth to below trend so as to contain the persistent inflationary pressures. Now that growth indeed seems to be slowing, albeit maybe somewhat more than expected, it may not be appropriate for monetary policy to ease aggressively before conclusive signs have appeared that inflation has been curtailed. Two, even if one assumes that cost of capital needs to be brought down, a repo rate cut may not be the best way to achieve it currently. This is because of the significant divergence in credit and deposit growth rates of banks which will mute any transmission from repo rates into deposit and lending rates. Instead a more pro-active focus on liquidity management may serve the purpose better.

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Inflation has been a cause of concern in the past one year with food inflation to be mainly blamed for. Where do you think inflation is headed in the coming months and how do you see it impacting bond yields?

The so called 'core' inflation is expected to remain relatively well-behaved with some easing of domestic demand pressures and correction in global commodity prices. However, food inflation is expected to remain a challenge given a structural change in consumption patterns owing to better rural incomes, continuous revisions in support prices, and possibly erratic monsoons. As a result overall inflation should remain relatively sticky.

While RBI's focus is on demand management and hence on core inflation, it cannot afford to ignore consumer price inflation (which is still in double digits). This is because the relative attractiveness that a saver sees in placing bank deposits will depend upon her consumption basket inflation or CPI rather than core WPI. And unless bank deposit growth picks up, it is hard to see how general cost of funds will come down.

What according to you is pulling Rupee down? How long do you see the slide continuing and what would be its impact on the bond markets?

The rupee has been hit partly by the general risk-on / risk-off environment that has plagued many currencies across the developing world. During this phase, most of the overvaluation of the rupee versus its trade-weighted peers seems to have got corrected as well. However, apart from the global effect, at this juncture India has a host of domestic problems as well. These include high fiscal and current account deficits, sticky inflation, slowing growth, and perceived policy unfriendliness. In the near term the rupee should continue to broadly take its cues from global triggers. However, as some of our local problems abate over the medium term (for one current account deficit may start to correct somewhat on slower import demand), the currency may start to stabilize as well.

The scenario looks gloomy on the global front. Euro-zone debt crises continue unabated, with Italy and Spain joining the bandwagon of troubled nations. Japan was recently downgraded and US economy is showing very little signs of recovery. From the global perspective, according to you, what is in store for domestic bond markets?

The most direct linkage of domestic bonds with the global environment is via the currency. If global risk-off triggers currency pressures, the RBI has to intervene by buying rupees and selling dollars. This tightens rupee liquidity further in the domestic market. To off-set this tightness, the RBI typically infuses liquidity by buying bonds from the market under open market operations (OMOs). Thus, quite perversely, lately a weaker rupee is associated with bond bullishness due to this linkage. Another linkage is that global risk aversion curbs appetite of foreign investors for local bonds. Finally, if risk aversion becomes extreme, it begins to tell on spreads of corporate bonds over sovereign bonds.

If a subdued global environment continues to exert downward pressure on commodity prices, it has positive implications for the fiscal deficit as well has easing headroom for monetary policy. To that extent, it is positive for domestic bonds. However, if risk aversion becomes extreme then given the linkages described above, corporate bond spreads may come under pressure.

The estimated fiscal deficit for the FY 2011-12, as announced in the budget, is around 5.9%. This is 1.3% higher than the targeted 4.6%. In the light of the same and given the scenario at present, do you think that the government will be able to achieve fiscal deficit target of 5.1% that it has set for the FY 2012-13? What will be its impact on bond yields?

Even though the current year's budget is much more realistic than the one before, there are definitely points of pressure within it. For instance, tax revenues are budgeted to grow by almost 20%. This will certainly become a challenge if economic growth were to continue to slow. On the expenditure side, while the finance minister has promised to cap overall subsidy at 2% of GDP, there have been no efforts yet at revising prices of administered fuel basket. Even at current levels of rupee denominated oil prices, meeting the subsidy targets will be a challenge.

A higher fiscal deficit would imply higher than currently indicated government borrowing. This per se is negative for bond yields. However, given that the RBI has emerged as a large buyer for government bonds under its OMOs, the ultimate impact on bond yields may not be too large.

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The average maturity of IDFC Dynamic Bond fund has been quite variable in the recent times. How are you positioning this fund and what has been your strategy so far?

We think that pending resolution of some of our macro-economic problems like high fiscal deficit, sticky inflation, adverse credit to deposit ratios, etc; it is perhaps unreasonable to expect a secular bull run in fixed income. At the same time, apart from offering very good 'carry' income, the market provides one to two significant opportunities in a year to make gains via duration exposures. IDFC Dynamic Bond fund is positioned as an active managed income fund around this strategy. Thus in the current environment it is focused on optimizing carry income while taking tactical duration calls from time to time.

Would you recommend investors to go in for higher duration funds at this juncture, or rather remain invested in short term funds and FMPs? What is your take on dynamic bond funds?

Given our view as expressed above, we wouldn't recommend passively managed high duration funds. Instead well managed dynamic bond funds which have some history of stable performance are a better option. We are also recommending short term funds for more conservative investors. FMPs may be sub-optimal beyond a point since such investments are prone to both illiquidity risk (since FMPs do not offer redemption prior to maturity) and re-investment risk (risk that rates are lower when the FMP matures).

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MARKET ROUNDUP

Indian Equity Markets

Bears crippled the markets as the equities tumbled for the third consecutive month. Sentiments were severely hurt with Euro-zone woes mainly dictating the market trend across the globe and a series of disappointing macro data back home raising alarm. Following the weakness in the last month, domestic indices started off the month of May on a negative note and continued its decline for the rest of the month. Volatility too remained prevalent in the markets. Selling by foreign institutional investors (FIIs) was also responsible for this market carnage. The flows were impacted as global weakness continued to loom over Indian markets throughout the month with J.P. Morgan Chase revealing huge derivative loss, downbeat China data and euro-zone woes including but not limited to the downgrade of Spanish and Italian banks by Moody's, election results in Greece or the uneventful EU summit.

Nothing seemed to be going right even on the domestic front with a series of disappointing macro-economic data released during the month. March's industrial output (IIP) contracted sharply by 3.5% as compared to a rise of 4.1% in February and 9.4% in the corresponding period last year thereby indicating a slowdown in the economy. This was followed by a rise in inflation numbers; wholesale price index (WPI) rose a faster-than-expected 7.23% in April from a year earlier compared to 6.89% in March, mainly driven by higher food prices and manufactured items.

Weakness continued as a tumbling rupee and slowdown in economic growth severely gave a big blow to the markets. Annual economic growth slumped to 5.3% in the March quarter as the manufacturing sector contracted and the rupee fell to a record low. This was against expectations of a rise of 6.1%. For the financial year 2011-12, growth slipped to 6.5% from 8.4% a year ago. It was also a drop in key infrastructure industries growth and widening fiscal which dampened sentiments further. All in all it was a disappointing and probably the weakest month for the equity markets in this calendar year with scenario turning adverse in both global and domestic markets.

INDIAN INDICES

Index	Market Price (Mo-End)	Monthly Return (%)	Return 1-Yr (%)
S&P Nifty	4,924.25	-6.17	-11.44
BSE 100	8,520.92	-6.19	-12.34
BSE SENSEX	16,218.53	-6.35	-12.35
BSE Midcap	5,907.95	-6.46	-14.50
BSE Smallcap	6,271.00	-7.30	-23.86

SECTORAL INDICES

Index	Market Price (Mo-End)	Monthly Return (%)	Return 1-Yr (%)
BSE IT	5,666.08	-0.67	-5.48
BSE TECK	3,277.35	-1.47	-9.56
BSE Healthcare	6,645.31	-2.21	3.95
BSE FMCG	4,574.26	-4.15	18.56
BSE Oil and Gas	7,587.84	-4.73	-20.91
BSE Consumer Durables	6,201.53	-5.92	-5.30
BSE Capital Goods	8,816.90	-6.29	-32.66
BSE Realty	1,578.90	-6.72	-27.51
BSE PSU	6,760.10	-6.74	-21.23
BSE BANKEX	10,884.53	-7.98	-13.22
BSE Metal	10,106.45	-8.68	-34.42
BSE Power	1,813.91	-9.87	-29.03

Data as on May 31, 2012 in Base Currency Source: Morningstar Direct

During the month, the BSE Sensex fell below 16,000 as it touched a low of 15,809 and a high of 17,432 before it ended 6.4% down to close at 16,218. The Mid cap and small cap stocks followed their large cap peers. Both the BSE Mid-cap and BSE Small-cap stocks too shed 6.5% and 7.3% respectively. The S&P CNX Nifty too witnessed a sharp fall as it closed 6.2% lower to end at 4,924.

It was all red in the BSE sectoral space with no gainers this month. The BSE Auto index was the highest loser as it tanked 17% mainly due to index heavyweights Tata Motors and Maruti which fell 26% and 20% respectively. Auto stocks were severely hit by poor sales numbers, a steep petrol price hike during the month and disappointing earnings.

BSE Power and BSE Metal indices followed, down 10% and 8.7% respectively. Metal stocks fell on the back of the ongoing uncertainty in global markets. Also weak manufacturing data in China dampened sentiments within this space. The key losers here were Tata Steel, Jindal Steel and Sterlite which fell between 11% - 13% each

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The BSE IT index too fell, but the fall was restricted due to the weakening rupee which benefitted this sector. The index saw a marginal drop of 0.7%. The BSE Teck index dropped 1.5%. The two defensive sectors BSE FMCG and BSE Healthcare indices also shed 4.2% and 2.2% respectively.

Among the other major losers on the BSE sectoral space were the BSE Bankex, BSE PSU and BSE Realty indices which each dropped 8%, 6.7% and 6.7% respectively.

As per the data released by SEBI, foreign institutional investors (FIIs) emerged as net sellers in equities. They sold net equities worth Rs 347 crores in May. However year-to-date they have been net buyers in equities to the extent of Rs 33,948 crores with majority of the inflows coming in the first two months of calendar year 2012. The FIIs were net buyers in debt segment for the month to the tune of Rs 3,581 crores.

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Global Equity Markets

US: US stocks weakened on concerns regarding the results of elections in Greece and France in which parties opposed to austerity measures gained/won. Political deadlock in Greece, which heightened fears of the debt ridden nation not being able to implement its promised austerity measures, led the markets down. Rising bond yields in Italy and Spain and no plan by European leaders to solve the crisis at an informal summit lead to further weakness.

Back home, markets were rattled after JPMorgan lost at least $2 bn from a failed hedging strategy due to which there is a greater risk of more regulation. Much-hyped Facebook's lacklustre debut also soured sentiment. Indices nose-dived after the US economy added 69,000 jobs in May, well below forecasts and also, the Commerce Department lowered its estimate for first-quarter US economic growth to 1.9% from 2.2%. Meanwhile, the minutes of the Federal Reserve's most recent meeting showed that policymakers kept alive the possibility of a fresh round of monetary stimulus. Some losses were compensated for after news that Greece will receive its latest debt bailout payment, after Spain decided to nationalise the troubled Bankia SA. International and EU leaders' support to Greece staying in the Euro zone also helped.

Europe: Equities in Europe were hammered as there were no signs of the crisis abating. Indices were lowered after election results in France and Greece raised concerns about the respective nations' ability and commitment towards implementing spending cuts. Further, political parties in Greece were not able to come to terms of forming a government due to which Greek officials set new elections for June 17. Fitch cut Greece's rating from B- to CCC. Also as expected, EU leaders didn't come to any new agreements on how to contain the debt crisis in a summit.

INTERNATIONAL INDICES

Region / Index	Country	Market Price (Mo-End)	Monthly Return (%)	Total Return 1 year (%)
US				
DJ Industrial Average	US	12,393	-6.2	-1.4
S&P 500	US	1,310	-6.3	-2.6
NASDAQ 100	US	2,525	-7.3	6.4
Europe				
Euronext Paris CAC 40	France	3,017	-6.1	-24.7
FTSE 100	UK	5,321	-7.3	-11.2
FSE DAX	Germany	6,264	-7.3	-14.1
Asia Pacific				
FTSE Bursa Malaysia KLCI	Malaysia	1,575	0.3	1.1
Shanghai SE Composite	China	2,372	-1.0	-13.5
TSEC 50	Taiwan	5,042	-3.2	-18.2
BSE SENSEX	India	16,219	-6.4	-12.3
FTSE/SGX STI	Singapore	2,773	-6.9	-12.3
KSE KOSPI Korea	South Korea	1,843	-7.0	-14.0
S&P/ASX 200	Australia	4,076	-7.3	-13.4
JSX Composite	Indonesia	3,833	-8.3	-0.1
SET 50	Thailand	792	-8.4	5.0
Nikkei 225 Average	Japan	8,543	-10.3	-11.9
Hang Seng HSI	Hong Kong	18,630	-11.7	-21.3
Other Emerging markets				
BOVESPA Ibovespa	Brazil	54,490	-11.9	-15.7
RTS RTSI	Russia	1,242	-22.1	-34.2

Data as on May 31, 2012 in Base Currency Source: Morningstar Direct

Spain had its own problems. Its economy contracted 0.3% in the first quarter from the fourth quarter, the second straight successive contraction. Banking shares fell as S&P cut the credit ratings of several major Spanish banks and revised its assessment of Spain's economic risk. Also, Moody's downgraded 16 Spanish banks and 26 Italian banks. But some losses were reduced after Euro zone governments said they would release 4.2 bn euros in previously agreed financing for Greece, thought they held back 1 bn euros that will be paid out by June, depending on Greece's funding needs. Some rise was seen after a poll on the upcoming Greece elections showed that pro-bailout parties may do better this time. Markets also gained after the Spanish government took a 45% stake in Bankia SA, effectively nationalizing the troubled lender.

Asia: Asian markets were affected by weak economic indicators from across the world and on developments in the Euro zone in Italy, Greece, Spain and France spanning from political to economic. However, some losses were reduced after Chinese Premier said he would focus on maintaining growth and after opinion polls ahead of Greece's June re-election showed that pre-Euro zone parties may hold an edge this time.

Nikkei fell 10% due to weak Chinese data and after Fitch cut Japan's credit rating by two notches to A+ from AA, citing the country's massive public debt. A firmer yen against the euro also led the Nikkei down. Shanghai Composite index fell due to a slew of weak economic indicators including lower-than-expected trade surplus, weak factory output and manufacturing PMI indices (May). However, its landing was softened after the China Securities Regulatory Commission said it would reduce transactions fees for yuan-denominated shares by 25% starting June 1. People's Bank of China's decision to cut the reserve-requirement ratio by 0.5 percentage points from May 18 and the Premier's calling for additional efforts to support growth also helped.

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Indian Debt Markets

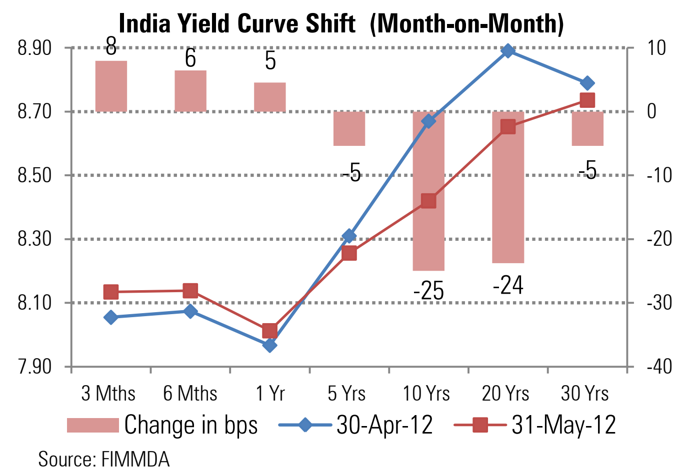
In the current scenario, the Indian fixed income market is going through a phase where plenty of factors are impacting government bonds at the same time. This poses a peculiar situation for bond investors as they are not sure which direction to look at or which factor to focus on.

Debt Indicators	April - 2012	May - 2012
Call Rate	8.38	8.09
1 Mn NSE Mibor	9.33	9.41
10-Yr benchmark bond	8.67	8.42
Reverse Repo	7.00	7.00
Repo	8.00	8.00
Bank Rate	6.00	6.00
CRR	4.75	4.75

Source: Morningstar, RBI, CCIL

Supply and liquidity have been the two main drivers of the government bond yields since the beginning of the current financial year, and this month was no different. While there was a steady stream of supply of dated securities throughout the month; weakness in rupee threatened to aggravate liquidity crunch and inflation.

Furthermore, uncertainty in the economic scenario both on the global and domestic front continued. The domestic economic environment is largely dependent on the interest rate scenario in the country, which in turn is subject to host of factors both domestic as well as global. Worsening outlook on the global economy and slowing domestic economic growth strengthens the case for further monetary easing by the RBI in months ahead.



Source: FIMMDA

However, there are enough challenges ahead for RBI before it decides to cut rates further. The major one is rupee depreciation which is threatening to stoke inflation further in the country. The Indian unit has been falling consistently for a while now on the back of global risk aversion. It's noteworthy though that the impact of depreciation in rupee on the bond market is both positive and negative.

On the positive side, RBI is forced to sell USD in order to arrest fall in Rupee. This in turn prompts the central bank to purchase bonds to limit the impact on rupee liquidity in the banking system due to its intervention in the currency market. On the negative side, weakness in Rupee results in costlier oil imports, which in turn may inflame inflation further. This also weakens government finances as its oil subsidy bill shoots up.

But this was a month in contrast as market focused largely on positive cues leading to the sharp fall in bond yields, especially at the longer end of the yield curve. Expectation of more cuts in key policy rates owing to the slowdown in domestic economy was the primary reason for the same. The yield on 10 year benchmark 8.79%, 2021 bond fell by 25 bps in May to end at 8.42% against previous month's close of 8.67%. The 10 year benchmark 8.79%, 2021 bond also benefitted as it continued with its benchmark status, throughout the month, against the expectation of it becoming illiquid after the launch of new 10 year benchmark gilt. The government decided against issuing a new 10-year paper in May, and instead it reissued the 8.79%, 2021 bond.

Government bonds also found support from OMOs, which RBI conducted three times during the month, to ease the pressure on liquidity in the banking system. In total, RBI purchased bonds worth Rs 320.79 bn as against the target amount of Rs 360 bn.

As mentioned earlier, one of the major reasons for government bonds doing well during the month was the expectation that the RBI may accelerate its monetary easing cycle in coming months. Such expectations have emerged due to the slowdown in domestic growth, and a feeble global economic situation.

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Sentiments were boosted as the fall in industrial output for March strengthened the case for further monetary easing by the RBI in the coming months. The IIP contracted 3.5% from a year ago in March. In February, industrial output had grown 4.1%. The expectation of a rate cut grew stronger on the back of weak GDP growth data for the last quarter of the financial year 2011-12. India's GDP growth slowed to 5.3% in Jan-Mar (as against the expected 6.1%) from 6.1% in Oct-Dec and 9.2% a year ago. However, expectation of a rate cut was countered by hike in petrol prices, which raised concerns of inflation getting stoked further. Infact, Inflation based on the WPI rose to a two-month high of 7.23% in April from 6.89% in March.

But, deteriorating global economic scenario kept sentiments in the domestic bond market upbeat. This was primarily because of deepening euro-zone debt crises and Japan's credit rating downgrade by rating agency Fitch. Risk appetite was hurt globally due to the political crisis in debt-ridden Greece. Persistent concerns over the health of European banking sector and the possibility of Greece exiting the Eurozone dampened global economic outlook. Bond prices also surged after rise in Italy and Spain's borrowing costs hit investor sentiment globally. Global economic uncertainty augurs well for domestic bonds as it increases the odds of further monetary easing by the RBI.

Although RBI, while announcing monetary policy in April, said that room for further cut in interest rates is limited, the month of May ended with expectation that weak domestic growth and delicate economic conditions globally would prompt the central bank to cut interest rates when it announces its mid-quarter monetary policy review on June 18, 2012.

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MUTUAL FUND UPDATE

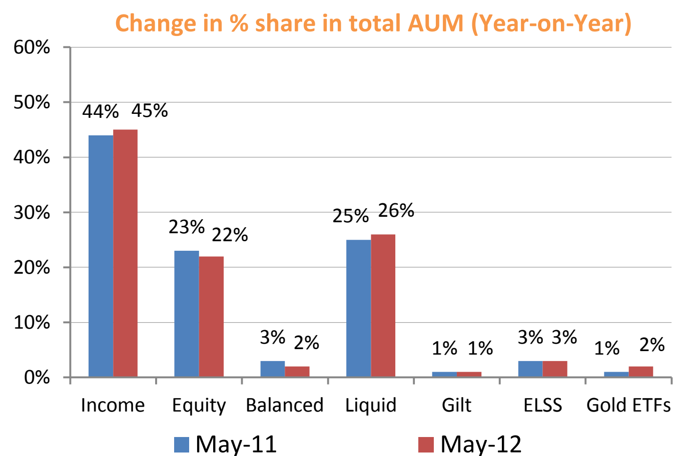
Fund Flows & Asset Trends

Mutual Fund Categories - Net Flows and AUM Growth Trend						
Mutual Fund Categories	**Net Flows for Month ending April 2012 (Rs in Cr.)**	**Net Flows for Month ending May 2012 (Rs in Cr.)**	**AUM in April 2012 (Rs in Cr.)**	**AUM in May 2012 (Rs in Cr.)**	**% Change in AUM (MoM)**	**% Change in AUM (YoY)**
Liquid/Money Market	75752.0	25052.0	156,844	182,617	16.4	(0.5)
Income	17874.0	1580.0	309,738	313,422	1.2	(3.1)
Gold ETFs	50.0	(41.0)	10,218	10,312	0.9	88.8
Other ETFs	(51.0)	32.0	1,545	1,509	(2.3)	(32.7)
FOF Overseas	(11.0)	9.0	2,523	2,415	(4.3)	(16.3)
Balanced	(23.0)	61.0	16,224	15,478	(4.6)	(15.8)
Equity	(455.0)	506.0	156,195	148,310	(5.0)	(11.4)
ELSS	(160.0)	(86.0)	23,425	22,090	(5.7)	(10.7)
Gilt	(230.0)	(371.0)	3,442	3,131	(9.0)	(6.1)
Total	**92,746**	**26,742**	**680,154**	**699,284**	**2.8**	**(4.4)**

Source: AMFI, Morningstar Compilations; Data sorted based on % change in AUM (MoM)

The total asset under management (AUM) of the mutual fund industry saw some slowing down in the month of May 2012 as it grew by just 2.8% as compared to a 16% growth seen in the previous month. The total AUM almost touched the 700,000 figure as it grew from Rs 680,154 crores to Rs 699,284 crores in May. This was mainly due to slowdown in inflows as compared to the previous month. Also a fall in the underlying equity markets due to weak cues from both global and domestic markets, hit the equity asset base. The total inflows during the month stood at Rs 26,742 crores as compared to Rs 92,746 crores in the previous month. The strong inflows in the previous month were mainly backed by the huge inflows from banks and financial institutions who had withdrawn their money in March to meet tax liabilities. Among the debt categories, it was only the Gilt fund category which not only saw a slip in its asset base but also witnessed net outflows. This could be mainly attributed to the uncertainty prevailing in the bond markets. Liquid and Money market fund category, continued to receive decent inflows for the second consecutive month. However the same were lower than the huge flows seen in the previous month which was mainly on account of banks and corporate returning with their surplus to park with liquid mutual funds. The total asset base grew by over 16% to Rs 182,617 crores as against Rs 156,844 crores in the month of April. The overall market share of the category which had taken sharp dip in the last two months revived back to 26% in May. The income fund category also witnessed marginal growth of 1% in its asset base. The category saw net inflows of Rs 1,580 crores as compared to net inflows of Rs 17,874 crores in the month of April.

The equity fund categories were hit with primarily the weakness in equity markets to be blamed for. With markets falling over 8%, the equity category asset base too eroded by 5% thereby taking the overall market share to 22% from 27% in the last month. However, the category saw inflows of Rs 506 crores as compared to net outflows in the last month. Similarly the balanced fund category saw its AUM decline by close to 5% however this category too had net inflows of Rs 61 crores. On the other hand, ELSS category saw around 6% fall in its assets with net outflows continuing for second consecutive month. With global turmoil impacting the gold prices, it was after almost 3 quarters that the Gold ETF category witnessed net outflows of Rs 41 crores mainly on account of profit booking. In the last two years too, this was only the third time the category witnessed net outflows. On the other hand, the asset base witnessed marginal growth of close to 1%. Year-on-year it is the only category to see strong growth in its asset base. The overall market share however still continues to remain very minimal at 2%.



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Fund Category Performance

- In the month of May, technology funds managed to buffer losses and were the top performers within the equity space—posting an average return of -0.9%. The sharp fall in the rupee (by 6.5% against the dollar) in May helped to raise prospects of IT companies, and drew investors to them.

- Defensive sector funds like healthcare and FMCG continued to remain in vogue, and fared better than other diversified equity funds. Global funds were helped by the sharp depreciation in the rupee in May.

- Interest rate sensitives like financials and autos took it on their chin during the month. The hike in fuel prices also dampened sentiments in the auto space. Financial sector funds were the bottom performers during the month (-7.2%), and diversified equity funds having higher exposure to rate sensitives like auto, financials and infrastructure also underperformed in May. Infrastructure funds too fared poorly during the month.

- Despite posting losses, diversified equity funds didn't fare too badly than their underlying indices. More than 70% of the large-cap funds outperformed the BSE 100 index (-6.2%), while an overwhelming 88% of the small/mid-cap funds outperformed the CNX Midcap index (-7.7%) in the month of May.

- With bond yields falling in May, gilt funds were back in favour, after underperforming in the previous two months. The long government bond category was the top performer from the fixed income space, posting a return of 2% in May. The yield of the benchmark 10 year bond closed the month down 25 basis points. Weak economic data and macro-economic concerns raised expectations of a rate-cut by the central bank in its next monetary policy review on June 18. Dynamic bond funds too fared well from the intermediate bond category.

- The fall in bond yields caused shorter tenure bond funds to underperform their longer tenure counterparts in May. Short term bond funds were the bottom performers delivering an average return of 0.7% in May. However, they have still managed to fare well over the past year—posting a handsome return of 9.6% (on average).

CATEGORY AVERAGES

Morningstar Category	Return (%) 1 Month	Return (%) 6 months	Return (%) 1-Year	Return (%) 3-Year
Equity				
Sector- Technology	-0.9	3.3	-6.4	18.8
Sector - Healthcare	-3.4	5.8	0.0	26.2
Sector - FMCG	-3.8	14.8	27.0	35.3
Global - Other	-4.8	1.2	-5.6	9.1
ELSS (Tax Savings)	-5.4	2.9	-9.3	7.6
Small/Mid-Cap	-5.5	5.4	-7.5	11.7
Large-Cap	-5.7	1.7	-11.2	5.2
Sector - Energy	-7.1	-3.8	-22.0	-5.3
Sector - Financial Services	-7.2	7.8	-13.7	11.2
Asset Allocation				
Conservative Allocation	-0.4	4.3	6.0	6.8
Moderate Allocation	-3.4	3.4	-3.4	7.3
Fixed Income				
Long Government	2.0	6.7	9.4	5.5
Intermediate Government	1.8	5.4	8.2	4.6
Intermediate Bond	1.0	5.4	9.8	6.3
Short Government	0.9	4.4	8.0	5.1
Liquid	0.8	4.7	9.1	6.5
Ultrashort Bond	0.8	4.6	9.2	6.8
Short-term Bond	0.7	4.7	9.6	6.9
Others				
ETF Precious Metals	1.2	2.0	29.7	24.5

Data as on May 31, 2012 Source: Morningstar Direct

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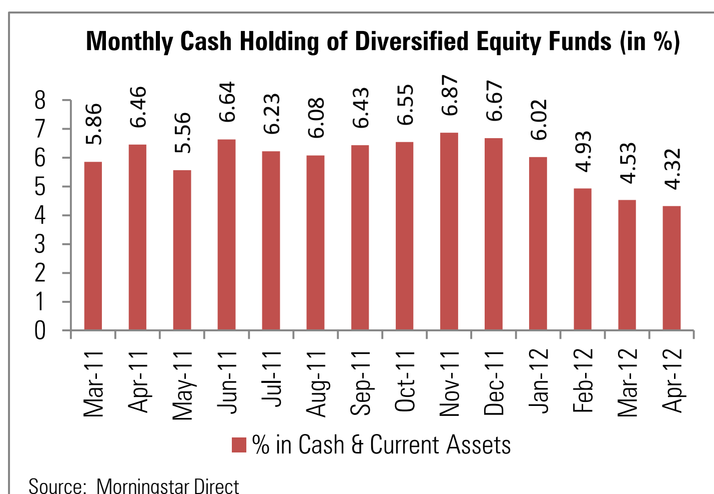
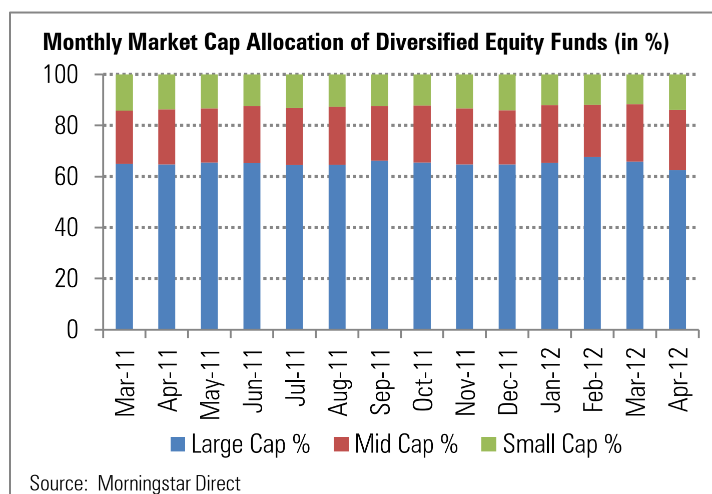
Portfolio Analysis of Diversified Equity Funds*

Monthly Sector Exposure of Diversified Equity Funds (in %)									
Month	Basic Materials	Consumer Cyclical	Consumer Defensive	Energy	Financial Services	Healthcare	Industrials	Technology	Utilities
Apr-11	11.6	12.2	6.0	10.6	21.7	5.8	14.0	9.5	5.1
May-11	11.6	12.0	6.4	10.4	21.7	6.1	12.7	10.1	5.0
Jun-11	10.8	11.8	7.1	10.0	21.8	6.3	13.0	10.0	5.3
Jul-11	10.6	11.8	7.4	10.0	21.5	6.5	12.3	9.9	5.4
Aug-11	11.0	11.8	7.5	10.7	21.0	6.7	11.8	9.3	5.5
Sep-11	10.6	12.3	7.6	10.6	21.3	6.4	10.6	10.0	5.8
Oct-11	10.8	12.6	7.6	10.3	21.5	6.4	10.5	10.0	5.7
Nov-11	10.9	12.5	8.0	10.3	20.4	7.1	10.3	10.6	5.6
Dec-11	10.5	12.2	8.3	10.2	20.0	7.3	9.6	11.7	5.7
Jan-12	10.8	12.4	7.4	10.3	22.6	6.7	9.7	10.5	5.1
Feb-12	9.6	12.2	7.7	10.1	23.7	5.7	10.2	11.4	5.0
Mar-12	11.2	12.4	8.0	9.0	22.1	6.3	10.6	10.9	5.6
Apr-12	10.7	13.1	8.7	8.6	22.6	6.9	10.2	10.7	5.0
Source: Morningstar Direct, To read more on the change in Morningstar Sector classification please click here									

**Diversified equity funds are those funds belonging to Morningstar India Large Cap and Small/Mid Cap categories. We have taken the average exposure of all funds within these categories.*



Source: Morningstar Direct



Source: Morningstar Direct

- Cash levels of diversified equity funds continued to fall in April, to record lows of an average 4.32%. The last time cash levels of equity funds were around these levels, was in March 2010—average cash holding of 4.69%.

- Exposure to defensives like consumer (FMCG), and healthcare rose in the month of April, while so did exposure to consumer cyclical sector (mainly auto). However auto stocks underperformed considerably in the month of May. Meanwhile, fund managers cut exposure to basic materials, energy and utilities sectors in April.

- Exposure to mid/small-cap stocks in portfolios of diversified equity funds continued to rise in the month of April, while exposure to large cap stocks dropped considerably. Average exposure to mid-cap stocks rose from 20.5% in February to 23.5% in April.

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Mutual Fund News

SEBI notified AIF Regulations, 2012

The Securities and Exchange Board of India notified SEBI (Alternative Investment Funds) Regulations, 2012 on May 21, 2012. With this, the regulator intends to extend regulation to unregulated funds in order to enhance systemic stability, increase market efficiency, and encourage formation of new capital and consumer protection.

CCI approved Nippon's stake in Reliance MF

Competition Commission of India approved the proposal of Japan's Nippon Life to acquire 26% stake in Reliance Capital's mutual fund arm Reliance Capital Asset Management. The deal, which is valued at around Rs 1,450 crore, is the largest Foreign Direct Investment deal in any Indian asset management company yet.

Canara Robeco MF launched Canara Robeco Gold Savings Fund

Canara Robeco Mutual Fund launched Canara Robeco Gold Savings Fund, an open ended fund of fund scheme with an investment objective 'to provide returns that closely correspond to returns provided by Canara Robeco Exchange Traded Fund'. The NFO period will be from June 4 till June 18, 2012. The exit load charged will be 2% if units are redeemed or switched out on or before 1 year from the date of allotment and nil thereafter. The scheme's performance will be benchmarked against the domestic price of physical gold.

Baroda Pioneer MF launched Baroda Pioneer Banking and Financial Services Fund

Baroda Pioneer Mutual Fund launched Baroda Pioneer Banking and Financial Services Fund with an investment objective 'to generate long-term capital appreciation for unit holders from a portfolio invested predominantly in equity and equity related securities of companies engaged in the Banking & Financial Services Sector'. The NFO period is from June 1 till June 15, 2012. Its performance will be benchmarked against CNX Bank Index.

Baroda Pioneer MF will change the asset allocation pattern of Baroda Pioneer Short-term Bond Fund

Baroda Pioneer Mutual Fund will change the asset allocation pattern of Baroda Pioneer Short-term Bond Fund from June 15, 2012. From then on, the scheme may invest 65-100% in debt securities with a residual maturity of upto 24 months while the remaining may be invested in debt securities with a residual maturity of greater than 24 months but less than 60 months. Due to this fundamental change, investors can exit the scheme without paying any exit load between May 11 and June 10, 2012.

Principal MF changed the name of Principal Near-term Fund

Principal Mutual Fund changed the name of Principal Near-term to Principal Debt Opportunities Fund from May 21, 2012.

Principal MF changed the asset allocation pattern of Principal Bank CD Fund

Principal Mutual Fund changed the asset allocation pattern of Principal Bank CD Fund from June 1, 2012. From then onwards, the scheme will be able to invest upto 90% in bank Certificate of Deposits (CDs), repo, CBLO and units of money market/liquid funds. It will also be investing between 10 to 20% in debt instruments.

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MORNINGSTAR TOP RATED FUNDS OVER 3 YEARS

Large Cap Funds

			Morningstar 3yr Rating**	Total Return (Annualized) in %			Historical Risk Ratios 3 Yrs					
Scheme Name	Fund Size (in Cr.)	Fund Size Date	Rating	1 Yr	3 Yr	5 Yr	Std Dev (%)	Sharpe Ratio	Information Ratio	Net Expense Ratio	Morningstar Ret Rating 3 Yr	Morningstar Risk Rating 3 Yr
Quantum L/T Equity	104.0	Apr-12	★★★★★	-5.1	16.0	9.8	18.5	0.9	-0.3	1.5	High	Average
ING Dividend Yield	93.0	Mar-12	★★★★★	-7.4	15.7	11.4	18.8	0.9	-0.3	2.5	High	Average
ICICI Pru Dynamic	4,118.8	Mar-12	★★★★★	-6.7	13.8	7.5	17.6	0.8	-0.5	1.9	High	Below Avg
HDFC Capital Builder	480.8	Mar-12	★★★★★	-9.7	13.6	7.3	18.6	0.7	-0.4	2.2	High	Average
Mirae Asset India Opp	233.2	Mar-12	★★★★★	-8.1	13.8	N.A	21.8	0.7	-0.4	2.4	High	Average

Data as of May 31, 2012; Only Growth Options considered for analysis; Source: Morningstar Direct

Small/Mid Cap Funds

			Morningstar 3yr Rating**	Total Return (Annualized) in %			Historical Risk Ratios 3 Yrs					
Scheme Name	Fund Size (in Cr.)	Fund Size Date	Rating	1 Yr	3 Yr	5 Yr	Std Dev (%)	Sharpe Ratio	Information Ratio	Net Expense Ratio	Morningstar Ret Rating 3 Yr	Morningstar Risk Rating 3 Yr
Birla Sun Life MNC	257.7	Mar-12	★★★★★	4.5	25.1	11.4	15.7	1.7	0.2	2.4	High	Below Avg
UTI MNC	232.3	Mar-12	★★★★★	7.9	23.5	12.0	15.7	1.6	0.1	1.9	High	Low
HDFC Mid-Cap Opportunities	1,860.3	Mar-12	★★★★★	-2.3	21.2	N.A	18.8	1.2	0.0	2.0	High	Average
SBI Magnum Sector Umbrella Emerg Busn	561.3	Mar-12	★★★★★	9.2	21.5	7.1	21.1	1.1	0.0	2.3	High	Average
ICICI Pru Discovery	1,778.6	Mar-12	★★★★★	-3.8	20.9	10.9	18.9	1.2	0.0	2.0	Above Avg	Above Avg

Data as of May 31, 2012; Only Growth Options considered for analysis; Source: Morningstar Direct

ELSS(Tax Savings) Funds

			Morningstar 3yr Rating**	Total Return (Annualized) in %			Historical Risk Ratios 3 Yrs					
Scheme Name	Fund Size (in Cr.)	Fund Size Date	Rating	1 Yr	3 Yr	5 Yr	Std Dev (%)	Sharpe Ratio	Information Ratio	Net Expense Ratio	Morningstar Ret Rating 3 Yr	Morningstar Risk Rating 3 Yr
ICICI Pru Tax Plan	1,278.4	Mar-12	★★★★★	-8.4	14.8	6.8	18.9	0.8	-0.4	2.0	High	Above Avg
Canara Robeco Equity Taxsaver	362.3	Mar-12	★★★★★	-4.6	12.4	N.A	17.6	0.7	-0.5	2.4	Above Avg	Low
Franklin India Taxshield	839.0	Apr-12	★★★★★	-4.7	12.4	8.1	19.6	0.6	-0.5	2.1	Above Avg	Low
Religare Tax Plan	111.5	Mar-12	★★★★	-7.6	12.9	9.3	18.6	0.7	-0.5	2.5	High	Below Avg
HDFC TaxSaver	3,114.1	Mar-12	★★★★	-11.0	12.5	6.0	18.4	0.6	-0.5	1.9	Above Avg	Average

Data as of May 31, 2012; Only Growth Options considered for analysis; Source: Morningstar Direct

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Moderate Allocation Funds

			Morningstar 3yr Rating**	Total Return (Annualized) in %			Historical Risk Ratios 3 Yrs					
Scheme Name	Fund Size (in Cr.)	Fund Size Date	Rating	1 Yr	3 Yr	5 Yr	Std Dev (%)	Sharpe Ratio	Information Ratio	Net Expense Ratio	Morningstar Ret Rating 3 Yr	Morningstar Risk Rating 3 Yr
HDFC Childrens Gift Investment	300.35	Mar-12	★★★★★	-0.08	19.25	10.62	14.53	1.35	-0.15	2.10	High	Average
HDFC Balanced	554.93	Mar-12	★★★★★	-0.87	16.56	11.91	13.82	1.18	-0.32	2.12	High	Average
HDFC Prudence	6,248.60	Mar-12	★★★★★	-3.13	15.53	11.30	15.52	0.98	-0.37	1.81	High	Above Avg
ICICI Pru Balanced	325.21	Mar-12	★★★★★	1.63	12.53	5.32	14.07	0.80	-0.56	2.29	High	Average
Tata Balanced	330.70	Apr-12	★★★★	-0.90	12.13	8.59	16.65	0.67	-0.55	2.32	Above Avg	Average

Data as of May 31, 2012; Only Growth Options considered for analysis; Source: Morningstar Direct

Conservative Allocation Funds

			Morningstar 3yr Rating**	Total Return (Annualized) in %			Historical Risk Ratios 3 Yrs					
Scheme Name	Fund Size (in Cr.)	Fund Size Date	Rating	1 Yr	3 Yr	5 Yr	Std Dev (%)	Sharpe Ratio	Information Ratio	Net Expense Ratio	Morningstar Ret Rating 3 Yr	Morningstar Risk Rating 3 Yr
ICICI Pru Child Care Study Plan	33.4	Mar-12	★★★★★	7.9	13.9	9.8	5.7	2.0	-0.5	1.5	High	Above Avg
HDFC Childrens Gift Saving	69.0	Mar-12	★★★★★	8.8	13.6	11.1	4.1	2.4	-0.5	2.3	High	Average
HDFC Multiple Yield	82.9	Mar-12	★★★★★	10.2	12.8	10.0	4.5	2.1	-0.6	1.8	High	Average
HDFC Multiple Yield 2005	600.4	Mar-12	★★★★★	8.8	12.6	10.1	2.9	2.6	-0.6	1.8	High	Below Avg
HDFC MIP L/T	6,636.1	Mar-12	★★★★★	5.0	12.3	10.2	5.7	1.6	-0.6	1.5	High	Above Avg

Data as of May 31, 2012; Only Growth Options considered for analysis; Source: Morningstar Direct

Liquid Funds

			Morningstar 3yr Rating**	Total Return (Annualized) in %				Historical Risk Ratios 3 Yr				
Scheme Name	Fund Size (in Cr.)	Fund Size Date	Rating	3 Mon	6 Mon	1 Yr	3 Yr	Std Dev	Sharpe Ratio	Morningstar Ret Rating 3 Yr	Morningstar Risk Rating 3 Yr	Expense Ratio
Sahara Liquid Var Pricing	644.4	Feb-12	★★★★★	2.6	5.0	9.7	7.4	0.4	1.2	High	Average	0.4
Birla Sun Life FRF S/T	3,267.7	Mar-12	★★★★★	2.6	4.9	9.6	7.2	0.4	1.1	High	Low	0.1
Reliance Liquidity	8,439.0	Mar-12	★★★★★	2.6	5.0	9.7	7.1	0.4	1.1	High	Low	0.1
HDFC Cash Mgmt Savings	2,082.9	Mar-12	★★★★★	2.6	5.0	9.6	7.1	0.4	1.1	High	Below Avg	0.4
JM High Liquidity	3,391.6	Mar-12	★★★★★	2.5	4.9	9.6	7.0	0.4	1.0	High	Below Avg	0.2

Data as of May 31, 2012; Only Growth Options considered for analysis Source: Morningstar Direct

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Ultrashort Bond Funds

			Morningstar 3yr Rating**	Total Return (Annualized) in %				Historical Risk Ratios 3 Yr				
Scheme Name	Fund Size (in Cr.)	Fund Size Date	Rating	3 Mon	6 Mon	1 Yr	3 Yr	Std Dev	Sharpe Ratio	Morningstar Ret Rating 3 Yr	Morningstar Risk Rating 3 Yr	Expense Ratio
Sahara S/T Bond	161.1	Feb-12	★★★★★	2.5	4.9	14.4	9.2	3.1	1.4	High	High	0.3
Birla Sun Life FRF L/T	539.4	Mar-12	★★★★★	2.7	5.1	10.0	8.2	0.4	1.5	High	Average	0.5
HDFC FRF Income L/T	981.5	Mar-12	★★★★★	3.0	5.4	10.7	8.2	0.9	1.5	High	Average	0.0
Birla Sun Life S/T Opp	117.4	Mar-12	★★★★★	2.9	5.1	10.0	8.0	0.8	1.4	High	Average	0.1
JM Money Manager Super Plan	283.0	Mar-12	★★★★★	2.7	5.2	10.3	7.9	0.4	1.4	High	Below Avg	0.2

Data as of May 31, 2012; Only Growth Options considered for analysis Source: Morningstar Direct

Short-Term Bond Funds

			Morningstar 3yr Rating**	Total Return (Annualized) in %				Historical Risk Ratios 3 Yr				
Scheme Name	Fund Size (in Cr.)	Fund Size Date	Rating	3 Mon	6 Mon	1 Yr	3 Yr	Std Dev	Sharpe Ratio	Morningstar Ret Rating 3 Yr	Morningstar Risk Rating 3 Yr	Expense Ratio
IDFC SS Inc M/T A	570.9	Mar-12	★★★★★	2.2	5.0	10.7	8.7	1.3	1.6	High	Above Avg	2.0
Templeton India S/T Income	4,986.5	Apr-12	★★★★★	2.5	4.6	9.6	8.4	0.9	1.6	High	Above Avg	1.3
Birla Sun Life M/T	568.4	Mar-12	★★★★★	3.4	5.6	10.8	7.8	1.0	1.3	High	Average	0.1
Birla Sun Life Dynamic Bond	5,348.1	Mar-12	★★★★★	2.3	5.4	10.7	7.8	0.8	1.3	High	Average	0.9
UTI S/T Income	417.7	Mar-12	★★★★★	2.3	4.9	10.4	7.7	1.2	1.3	High	Average	0.7

Data as of May 31, 2012; Only Growth Options considered for analysis Source: Morningstar Direct

Intermediate Bond Funds

			Morningstar 3yr Rating**	Total Return (Annualized) in %				Historical Risk Ratios 3 Yr				
Scheme Name	Fund Size (in Cr.)	Fund Size Date	Rating	3 Mon	6 Mon	1 Yr	3 Yr	Std Dev	Sharpe Ratio	Morningstar Ret Rating 3 Yr	Morningstar Risk Rating 3 Yr	Expense Ratio
SBI Dynamic Bond	1,092.5	Apr-12	★★★★★	2.2	6.4	12.5	8.3	2.0	1.3	High	Below Avg	1.1
UTI Bond	681.0	Mar-12	★★★★★	2.4	5.8	12.3	7.8	2.3	1.1	High	Average	1.9
BNP Paribas Bond Reg	356.4	Mar-12	★★★★★	2.1	4.1	8.9	7.7	1.5	1.2	High	Average	0.6
Templeton India Income Builder B	109.0	Apr-12	★★★★★	2.2	6.5	11.1	7.4	1.5	1.1	High	Below Avg	1.9
Kotak Bond Deposit	383.9	Apr-12	★★★★★	3.0	9.0	12.8	7.2	2.6	0.9	Above Avg	Above Avg	2.1

Data as of May 31, 2012; Only Growth Options considered for analysis Source: Morningstar Direct

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Short Government Funds

			Morningstar 3yr Rating**	Total Return (Annualized) in %				Historical Risk Ratios 3 Yr				
Scheme Name	Fund Size (in Cr.)	Fund Size Date	Rating	3 Mon	6 Mon	1 Yr	3 Yr	Std Dev	Sharpe Ratio	Morningstar Ret Rating 3 Yr	Morningstar Risk Rating 3 Yr	Expense Ratio
Birla Sun Life Gilt Plus Liquid	13.3	Mar-12	★★★★	2.0	4.0	7.7	6.2	0.6	0.7	Above Avg	Average	0.5
SBI Magnum Gilt S/T	47.1	Apr-12	★★★★	2.2	5.3	9.4	5.9	1.4	0.5	Above Avg	Average	0.8
Birla Sun Life Gov Sec S/T	1.5	Mar-12	★★★★	1.9	3.8	7.3	5.3	0.6	0.3	Above Avg	Below Avg	0.6
Kotak Gilt Savings Plan	5.7	Apr-12	★★★★	2.0	5.5	9.2	5.3	1.2	0.3	Above Avg	Average	1.9
DSP BlackRock Trs Bill	3.1	Apr-12	★★★★	2.1	3.7	7.7	5.2	0.4	0.2	Above Avg	Below Avg	0.6

Data as of May 31, 2012; Only Growth Options considered for analysis Source: Morningstar Direct

Intermediate Government Funds

			Morningstar 3yr Rating**	Total Return (Annualized) in %				Historical Risk Ratios 3 Yr				
Scheme Name	Fund Size (in Cr.)	Fund Size Date	Rating	3 Mon	6 Mon	1 Yr	3 Yr	Std Dev	Sharpe Ratio	Morningstar Ret Rating 3 Yr	Morningstar Risk Rating 3 Yr	Expense Ratio
Birla Sun Life Gov Sec L/T	306.9	Mar-12	★★★★★	1.4	6.6	9.9	8.8	3.3	1.2	High	Above Avg	1.5
IDFC Gov Sec PF A	21.5	Mar-12	★★★★★	2.4	7.4	12.8	6.6	3.4	0.6	High	Average	2.3
JM Gov Sec Reg	48.8	Mar-12	★★★★★	2.9	8.3	11.8	6.4	3.1	0.5	High	Below Avg	0.9
IDFC Gov Sec Inv A	56.2	Mar-12	★★★★	2.5	7.2	12.6	6.2	4.0	0.4	Above Avg	Above Avg	2.3

Data as of May 31, 2012; Only Growth Options considered for analysis Source: Morningstar Direct

Long Government Funds

			Morningstar 3yr Rating**	Total Return (Annualized) in %				Historical Risk Ratios 3 Yr				
Scheme Name	Fund Size (in Cr.)	Fund Size Date	Rating	3 Mon	6 Mon	1 Yr	3 Yr	Std Dev	Sharpe Ratio	Morningstar Ret Rating 3 Yr	Morningstar Risk Rating 3 Yr	Expense Ratio
Kotak Gilt Investment	127.6	Apr-12	★★★★★	3.7	11.0	14.0	7.7	3.7	0.9	High	Average	2.1
UTI Gilt Advantage L/T	125.7	Mar-12	★★★★	2.2	7.1	10.2	6.1	3.1	0.4	Above Avg	Low	1.5
HDFC Gilt L/T	248.5	Mar-12	★★★★	1.8	6.2	8.3	5.0	3.4	0.1	Above Avg	Below Avg	0.5

Data as of May 31, 2012; Only Growth Options considered for analysis Source: Morningstar Direct

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Selection Criteria: For the purpose of top funds analysis, funds whose AUM is less than 10% of the category average AUM (assets under management), have been excluded. Also, only growth options have been considered. Funds that make the grade on the aforementioned parameters have been ranked on the Morningstar 3 year Rating* as of May 31, 2012.

****Morningstar 3 year Rating** is based on fund's risk-adjusted performance. For the purpose of the rating, 100% weight is given to the three-year return.

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