



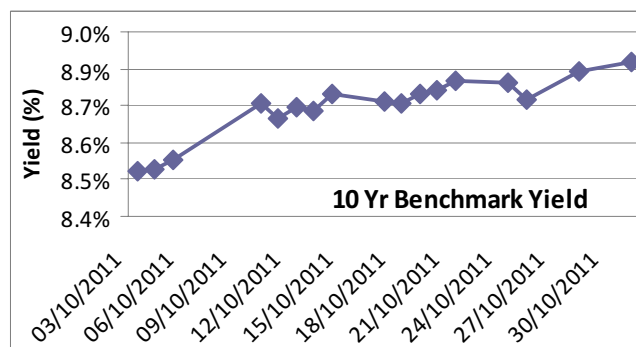
## Debt-roundup

- Bond yields dropped after the Government and RBI announced much needed liquidity easing measures to ensure smooth flow of bond supply. Government hiked the FII's limit by \$5 billion each in government securities and corporate bonds and RBI decided to buy bank bonds from the secondary market to provide much needed liquidity into the system. The measures were announced as banks were facing liquidity crisis, which led to rise in yields in the first half of November.
- This month also saw the launch of new 10-year paper. The higher outstanding amount on previous 10-year paper- 7.80% GS 2021 could have prompted Government to issue a new 10 year paper. The other factors that affected the bond market where slowing GDP growth and industrial productivity. The yield on the 10-year benchmark security decreased 14 bps to 8.74% over the month.
- The hike in foreign investment limit in government and corporate bonds from \$10 billion and \$15 billion to \$15 billion and \$20 billion respectively, was announced after the investment has reached its maximum limit for both government and corporate bonds. Another reason could be the fear of tepid demand for government bonds on the back of tight liquidity in the banking system.
- As expected, India's Gross domestic product (GDP) grew 6.9%, slowest in the last 9 quarters signaling the need to hold interest rates steady.
- Euro debt crisis deepened as bond yields rose in Italy, Germany and France as the response for government debt auctions was much lower than expected. European Central Bank reduced rates unexpectedly by 25 bps to 1.25%. Federal Reserve in its FOMC meet lowered the US growth outlook and estimated GDP to be around 1.6% and 1.7% for 2011 and 2.5% and 2.9% in 2012.
- Corporate bond yields dropped in medium to long maturities in the range of 2 bps to 7 bps while short term maturities inched up 3 bps. Spread between AAA rated corporate bonds and Gilt expanded in 5 to 10 years maturities in the range of 4 to 21 bps.

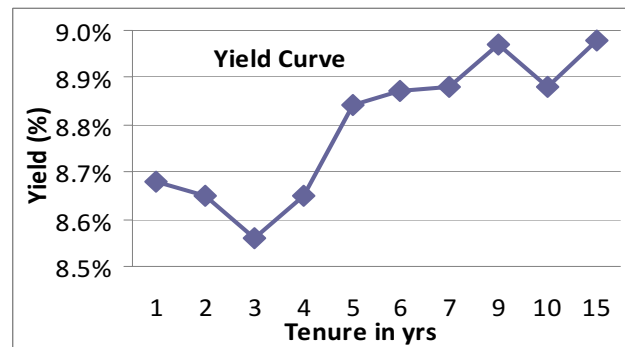
Key rates	Closing value	Weekly	Mthly	Yearly
Inflation	9.11	9.73	9.72	8.58
91 Days T-Bill	8.70	8.75	8.64	6.83
364 Days T- Bill	8.58	8.85	8.56	6.75
10 Year G-Sec Yield	8.74	8.81	8.84	8.07
MIBOR	8.60	8.73	8.58	6.64
6 Months LIBOR (USD)	0.55	0.53	0.48	0.49
Call Money Rate	8.56	8.67	8.53	6.67
Repo Rate	8.52	8.65	8.42	6.25
Reverse Repo	7.50	7.50	7.50	5.25
CRR	6.00	6.00	6.00	6.00
SLR	24.00	24.00	24.00	24.00
Bank Rate	6.00	6.00	6.00	6.00

\*Inflation rate for November 2011

### 10 Year Benchmark Yield



### Yield Curve



### Outlook:

In its mid quarter monetary policy review, RBI has kept the key policy rates unchanged and indicated a rollback of monetary tightening in the coming period to support growth. This has led to easing of sentiments in bond markets as yields have dropped to 8.45%. In addition, the OMO (open market operations) will be conducted at appropriate times to keep liquidity deficit within desired range. Going ahead the bond yields will track fiscal deficit trends which has been a cause of concern due to drop in tax collections and higher expenditure.

## Sharekhan's top debt fund picks

### Monthly Income Plan

Funds that offer a marginal flavor of equity (upto 15% or more) especially for portfolios that are otherwise debt oriented. They predominantly invest in debt and money market instruments.

Scheme Name	AAUM ** (Rs Crs)	Returns (%) (Simple Annualised)				Exp* Ratio (%)	Avg. Mat (Days)	Credit Quality (% Allocation)			
		1Mth	3 Mths	6Mths	1 Yr			AAA/P+	AA/AA+	Below AA	Cash & Call
HDFC Multiple Yield 2005	370.5	3.0	4.9	6.8	7.1	1.8	247	81.0	5.9	9.9	3.2
Birla SF MIP Savings 5	460.0	2.4	5.9	8.2	6.8	1.3	-	85.8	3.0	7.2	4.0
Birla SL Monthly Income	614.2	-6.1	1.1	4.3	3.7	2.0	-	70.4	14.4	12.0	3.2
Canara Robeco MIP	343.5	-7.6	2.8	4.2	4.1	2.1	248	49.9	1.4	17.6	31.1
Birla SF MIP	177.9	-10.0	3.1	3.7	3.2	2.1	-	61.9	21.9	11.3	4.8
Crisil MIP Blended Index		-9.8	3.6	3.3	2.5	-					

### Income Funds

Funds that invest in income bearing instruments with any maturity and across the yield curve to generate regular income, such as corporate bonds, gilts, treasury bills, certificates of deposit and commercial papers etc.

Scheme Name	AAUM ** (Rs Crs)	Returns (%) (Simple Annualised)				Exp* Ratio (%)	Avg. Mat (Days)	Credit Quality (% Allocation)			
		1Mth	3 Mths	6Mths	1 Yr			AAA/P+	AA/AA+	Below AA	Cash & Call
Birla Sun Life MTP	947.7	9.8	12.1	9.6	9.3	0.1	-	69.6	28.0	-	2.4
ICICI Pru MTP	103.5	7.5	8.2	8.6	8.3	0.3	215	98.6	-	-	1.4
BNP Paribas Bond	210.0	7.8	8.4	9.2	8.2	2.0	391	56.0	39.6	-	4.4
Birla SF Dyn Bond DAP	2347.5	9.1	7.1	10.1	8.5	0.9	-	73.8	14.9	-	11.3
Birla SF Dynamic Bond	2347.5	9.1	7.1	10.1	8.5	0.9	-	73.8	14.9	-	11.3
Crisil Composite Bond		9.7	6.2	8.0	6.2						

### Short Term Debt Funds

Funds invest in short-term debt instruments of high quality and low risk, that mature in about next 15 to 18 months and generally best suited to investors with 1 to 2 years of investment horizon.

Scheme Name	AAUM ** (Rs Crs)	Returns (%) (Simple Annualised)				Exp* Ratio (%)	Avg. Mat (Days)	Credit Quality (% Allocation)			
		1Mth	3 Mths	6Mths	1 Yr			AAA/P+	AA/AA+	Below AA	Cash & Call
Sahara Short Term Bond	223.6	8.7	8.8	18.1	13.6	0.4	27	89.4	-	-	10.6
JM Short Term Fund	353.8	9.2	9.2	9.4	8.8	0.8	48	100.3	-	-	-0.3
DSP BlackRock Short Term	575.1	7.1	7.9	8.7	8.2	1.0	405	69.3	23.3	-	7.4
Religare Credit Opp. Fund	556.6	8.9	8.9	9.1	8.0	1.1	44	89.5	0.7	-	9.7
IDFC SSI – MTP A	166.4	3.4	7.5	9.0	7.5	1.2	1040	59.5	34.7	-	5.8
Crisil Short-Term Bond		7.3	7.7	8.0	7.1						

### Ultra Short Term Funds

Funds that invest exclusively in debt instruments with very short maturity period, usually one year or less.

Scheme Name	AAUM ** (Rs Crs)	Returns (%) (Simple Annualised)				Exp* Ratio (%)	Avg. Mat (Days)	Credit Quality (% Allocation)			
		1Mth	3 Mths	6Mths	1 Yr			AAA/P+	AA/AA+	Below AA	Cash & Call
Tata Floater Fund	4751.2	9.0	9.1	9.2	9.1	0.3	82	88.2	1.0	-	10.8
Kotak Floater LT	4031.2	8.9	9.0	9.2	9.1	0.6	106	73.2	12.2	-	14.6
L&T Ultra Short Term	711.4	8.9	9.0	9.0	8.9	0.7	37	94.4	-	-	5.7
Baroda treasury Adv.	605.9	9.2	9.1	9.2	9.0	0.7	37	97.0	-	-	3.0
JPMorgan India Treasury	771.6	9.0	9.0	9.0	8.8	0.5	77	98.4	-	-	1.6
Crisil Liquid Fund Index		8.3	8.1	8.1	8.1						

## Floating Rate Funds

Funds that predominantly invests in debt securities with a floating rate of interest. And these debt securities peg their coupon or interest rate payable to market driven rate such as Mibor.

Scheme Name	AAUM ** (Rs Crs)	Returns (%) (Simple Annualised)				Exp* Ratio (%)	Avg. Mat (Days)	Credit Quality (% Allocation)			
		1Mth	3 Mths	6Mths	1 Yr			AAA/P+	AA/AA+	Below AA	Cash & Call
HDFC FRF LTP	992.4	8.8	9.1	10.1	9.7	0.0	115	99.9	-	-	0.1
Birla Sun Life FRF LTP	183.2	8.8	9.1	9.3	9.0	0.5	-	91.3	-	-	8.7
DSP Blackrock FRF	466.3	7.7	8.3	8.8	8.3	0.8	197	90.7	6.0	-	3.3
UTI FRF STP	2556.7	8.0	7.9	8.0	8.2	0.5	41	98.8	0.3	-	0.9
HSBC FRF - LTP	377.7	8.4	8.3	8.3	8.1	1.0	18	99.7	-	-	0.4
Crisil Liquid Fund Index		8.3	8.1	8.1	8.1						

## Liquid Fund

Funds investing only in short-term money market and debt instruments that mature in up to 91 days such as treasury bills, commercial paper and certificates of deposit.

Scheme Name	AAUM ** (Rs Crs)	Returns (%) (Simple Annualised)				Exp* Ratio (%)	Avg. Mat (Days)	Credit Quality (% Allocation)			
		1Mth	3 Mths	6Mths	1 Yr			AAA/P+	AA/AA+	Below AA	Cash & Call
Kotak Floater ST	4031.2	9.0	9.0	9.0	8.9	0.6	40	89.5	0.9	-	9.6
Reliance Liquidity Fund	12232.6	9.0	9.0	9.0	8.8	0.4	39	87.1	-	-	12.9
Baroda Pioneer Liquid	2359.5	9.1	9.1	9.0	8.8	0.5	18	97.9	-	-	2.1
HDFC Cash Mngt SP	3423.3	8.8	8.8	8.9	8.7	0.4	18	71.8	-	-	28.2
JPMorgan Liquid Fund	2132.5	8.9	8.9	8.8	8.6	0.4	32	96.3	-	-	3.8
Crisil Liquid Fund Index		8.3	8.1	8.1	8.1						

## Gilt Funds

Funds which invest only in government securities of different maturities with virtually no default risk.

Scheme Name	AAUM ** (Rs Crs)	Returns (%) (Simple Annualised)				Exp* Ratio (%)	Avg. Mat (Days)	Credit Quality (% Allocation)			
		1Mth	3 Mths	6Mths	1 Yr			AAA/P+	AA/AA+	Below AA	Cash & Call
UTI Gilt Adv. LT PF PDA	123.5	12.2	-0.3	5.8	6.8	1.5	4121	100.2	-	-	-0.2
SBI Magnum Gilt STP	45.0	9.8	7.9	7.9	7.6	0.8	865	36.0	-	-	64.0
ICICI Pru Gilt Fund TP PF	30.4	7.6	6.5	6.9	6.2	1.3	124	-	-	-	100.0
Birla Sun Life G Sec LP	381.7	16.2	3.7	6.4	5.8	1.5	-	97.7	-	-	2.3
Religare Gilt LDP	0.6	6.3	6.1	5.6	4.9	2.0	1	-	-	-	100.0
NSE GSec Composite		10.8	-4.1	1.0	1.5						

\*Exp – Expense ratio (latest available date)

\*\* AAUM (Rs Crs) – Figure represents September 2011 quarter average AUM.

## Tax rates

	Ind./HUF	Corporates	NRI
<b>Long Term Capital Gains (Investments for more than 12 months)</b>			
<b>Debt schemes</b>			
Without Indexation	10.30%	10.82%	10.300%
With Indexation	20.60%	21.63%	20.600%
<b>*Short Term Capital Gain (Investments for equal to or less than 12 months)</b>			
<b>Debt schemes</b>	30.90%	32.445%	30.900%
<b>Dividend Distribution Tax (Payable by the scheme)</b>			
<b>Debt schemes</b>	13.52%	32.45%	13.52%
<b>Money Market Schemes</b>	27.04%	32.45%	27.04%

\*Assuming investors fall into the highest tax bracket

## Methodology

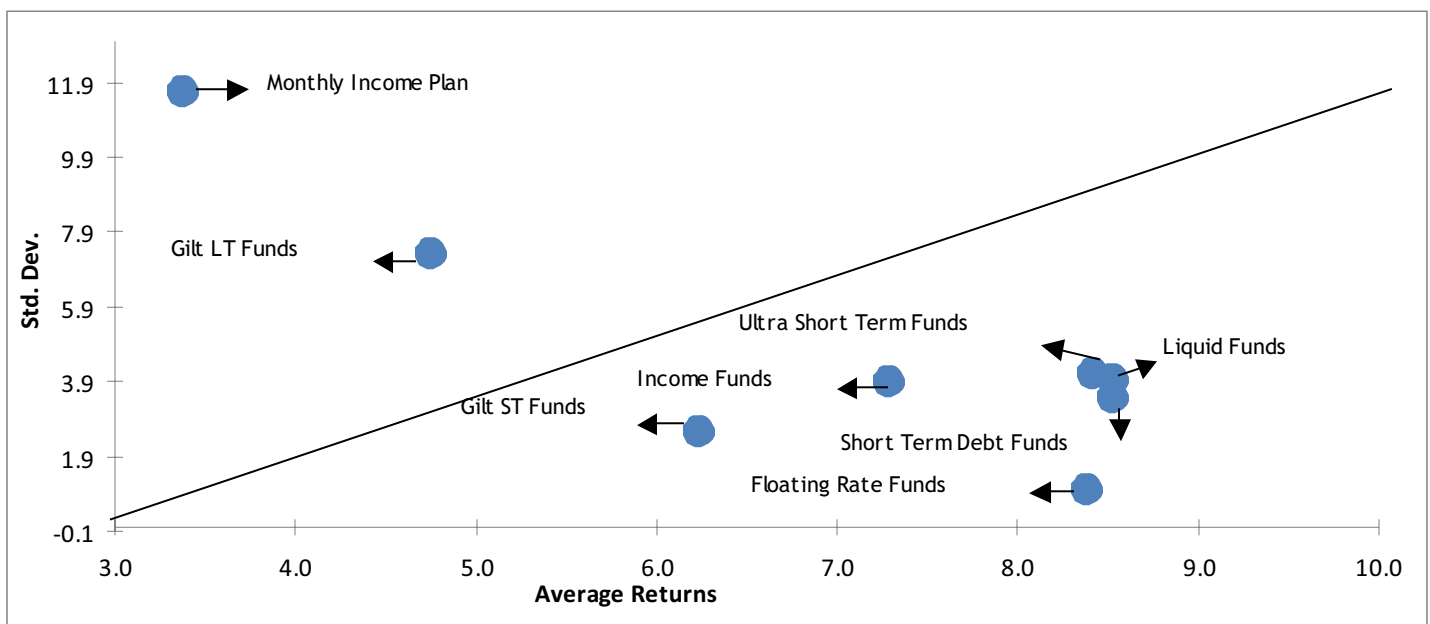
We have identified the best debt-oriented schemes available in the market today based on the following 5 parameters: Avg. rolling returns for one and two years, Sharpe ratio, Fama (net selectivity), Credit quality and Average Maturity. **Eligibility criteria:** scheme existence for more than 2 years and cut off of minimum 10% of category AAUM. After considering all the parameters we arrive at composite score by assigning specific weightages. **Following are the weightages:** Credit quality-10%, Avg.Maturity-10%, Avg.rolling returns for 1 and 2 years - 20% each, Sharpe-20% and FAMA (net selectivity)-20%.

## Category Write-up

In November equity markets, remained down with high volatility and debt market continues to give better returns. Hence, equity related mutual fund categories underperformed while pure debt funds remains an attractive proposition to park funds. Moreover, attention during the month was more into the gilt and higher tenure papers as yields reached multi-year highs and dropped thereafter. This reveals that now there may be limited scope for yields to go up, rather it could remain in range, looking at RBI's liquidity measures and bond supply concerns during FY12. Liquidity could get affected if non-performing loans in the banking industry rise further due to sluggish industrial growth. In addition, rupee depreciation could increase the subsidy burden and increase the already high fiscal deficit of the Government. These factors could put some pressure on yields going further.

If we look at the category performance, short term funds like liquid and ultra short term continues to give returns near to 9% due to higher yields on short term papers. Apart from gilt, all other categories including floating and income performed well. But there was some transition seen during the month as various fund managers shifted some amount of their short term holdings to relatively higher tenure or towards gilt papers to lock investment at higher yields. Investor's attention could remain attached to short term debt funds for some time. However, looking at the yields movement in the longer tenure papers in the last month it seems that interest towards higher maturity funds like gilt could increase in the coming months.

## Risk Reward Graph



## Methodology

The bubble diagram gives you a snapshot of how the mutual funds have performed on the risk - return parameter in the past. We have used bubble analysis method to measure their performance on two parameters i.e. Average rolling returns and Standard deviation. For all funds, we have considered one month rolling and periodic frequency for the period of one year, as on November 30 2011.

## Forthcoming NFOs

<b>Fund House Name:</b> Axis Mutual Fund		<b>Fund House Name:</b> Reliance Mutual Fund	
<b>Scheme Name:</b> Axis FTP - Series 17 (12M)		<b>Scheme Name:</b> Reliance FHF XXI Series 2	
<b>Open Date :</b> 08/12/2011	<b>Close Date :</b> 22/12/2011	<b>Open Date :</b> 19/12/2011	<b>Close Date :</b> 26/12/2011
<b>Structure :</b> Close ended	<b>Nature:</b> Debt FMP	<b>Structure :</b> Close ended	<b>Nature:</b> Debt FMP

## Face to Face

### Interview - Mr. Gurvinder Singh Wasan, Fund Manager, Principal Mutual Fund

Mr Wasan, M.Com, ACA and CFA from ICA, has more than 8 years of experience in Fixed Income Markets, Credit Analysis and Structured Finance. Prior to joining Principal Mutual Fund, he was associated with Crisil Ltd. as Credit Manager and prior to the same with ICICI Bank Ltd. as Manager (Treasury Department).

In an exclusive interview, Mr. Wasan spoke about the macro-economic scenario and the reason for the current slowdown. The interview was conducted on November 24, 2011.

**Kindly share your views on India's current macro-economic scenario as well as the debt market.**

**Mr Wasan-**Indian economic scenario is in a slowdown phase after a good run of last few years. GDP growth is expected to slow down to about 7.25%-7.5% for FY12 due to high interest rates affecting both consumption and investment growth and muted external environment affecting exports and service sector growth. Fiscal deficit may well be above the budgeted 4.6% of GDP due to shortfall in both tax and non-tax revenue and increase in subsidy bills. Average WPI inflation for FY12 may end up being above 8.50% which is way above the threshold level indicated by RBI. USD/INR has already breached Rs.52/\$ due to risk aversion globally and widening current account deficit. However, global scenario carries recessionary and sovereign default fears. Over a medium term we are bullish for bonds given likely peaking of near term interest rates and inflation accompanied by slowdown expected in growth. However, over the next few weeks short end of the curve may be impacted due to tightening liquidity expected.

**What are your views on the inflation situation in India, which continues to be much above the RBI's comfort zone despite series of rate hikes. Do you see any scope of further rise in interest rates or are we at the peak of interest rate curve?**

**Mr Wasan-**WPI inflation which RBI closely monitors is consistently above 9% even after aggressive rate hikes by RBI. There is an upward risk to WPI given the structural nature of inflation in India, supply side constraints and welfare oriented govt policies such as increase in minimum support prices. However, due to base effect and likely downward trajectory in commodity prices owing to slowing global economy, we may see WPI easing to 7.5% by March '12. It seems we are almost at the peak of interest rate cycle. RBI has also shown its focus on weaker growth and a downward trajectory of WPI is also likely to support changing stance of RBI.

**Do you think the current slowdown is due to high inflation or are there some other reasons as well?**

**Mr Wasan-**Inflation and the resulting monetary policy actions are definitely the significant causes of current slowdown in growth. But recessionary conditions in advanced economies are also contributing towards a slowdown domestically. In addition slowdown in the political decision making has also contributed its share.

**What type of bond funds would you recommend to retail investors?**

**Mr Wasan-**We recommend high duration funds like Income & Gilt for retail customers now so as to capture the peak of bond yields and also the capital appreciation on falling interest rate scenario expected from next fiscal. We recommend such customers to focus on a horizon not less than 2yrs in such fund so as to enjoy the total benefits from it.

Source: [www.mutualfundsindia.com](http://www.mutualfundsindia.com)

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