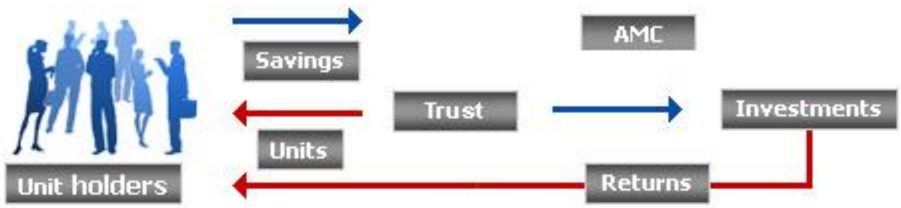
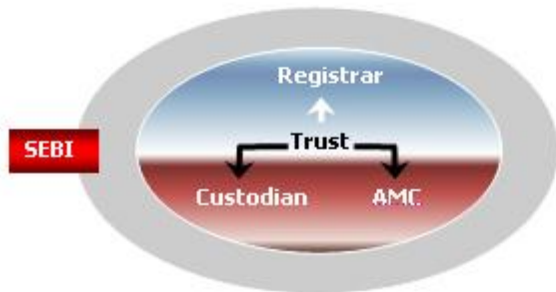
What is a Mutual Fund?

A mutual fund is just the connecting bridge or a financial intermediary that allows a group of investors to pool their money together with a predetermined investment objective. The mutual fund will have a fund manager who is responsible for investing the gathered money into specific securities (stocks or bonds). When you invest in a mutual fund, you are buying units or portions of the mutual fund and thus on investing becomes a shareholder or unit holder of the fund.

Mutual funds are considered as one of the best available investments as compare to others they are very cost efficient and also easy to invest in, thus by pooling money together in a mutual fund, investors can purchase stocks or bonds with much lower trading costs than if they tried to do it on their own. But the biggest advantage to mutual funds is diversification, by minimizing risk & maximizing returns.

Working of Mutual Fund





Regulatory Authorities

To protect the interest of the investors, SEBI formulates policies and regulates the mutual funds. It notified regulations in 1993 (fully revised in 1996) and issues guidelines from time to time. MF either promoted by public or by private sector entities including one promoted by foreign entities is governed by these Regulations.

SEBI approved Asset Management Company (AMC) manages the funds by making investments in various types of securities. Custodian, registered with SEBI, holds the securities of various schemes of the fund in its custody.

According to SEBI Regulations, two thirds of the directors of Trustee Company or board of trustees must be independent.

The Association of Mutual Funds in India (AMFI) reassures the investors in units of mutual funds that the mutual funds function within the strict regulatory framework. Its objective is to increase public awareness of the mutual fund industry.

AMFI also is engaged in upgrading professional standards and in promoting best industry practices in diverse areas such as valuation, disclosure, transparency etc.

Overview of existing schemes existed in mutual fund category: BY STRUCTURE

1. Open - Ended Schemes:

An open-end fund is one that is available for subscription all through the year. These do not have a fixed maturity. Investors can conveniently buy and sell units at Net Asset Value ("NAV") related prices. The key feature of open-end schemes is liquidity.

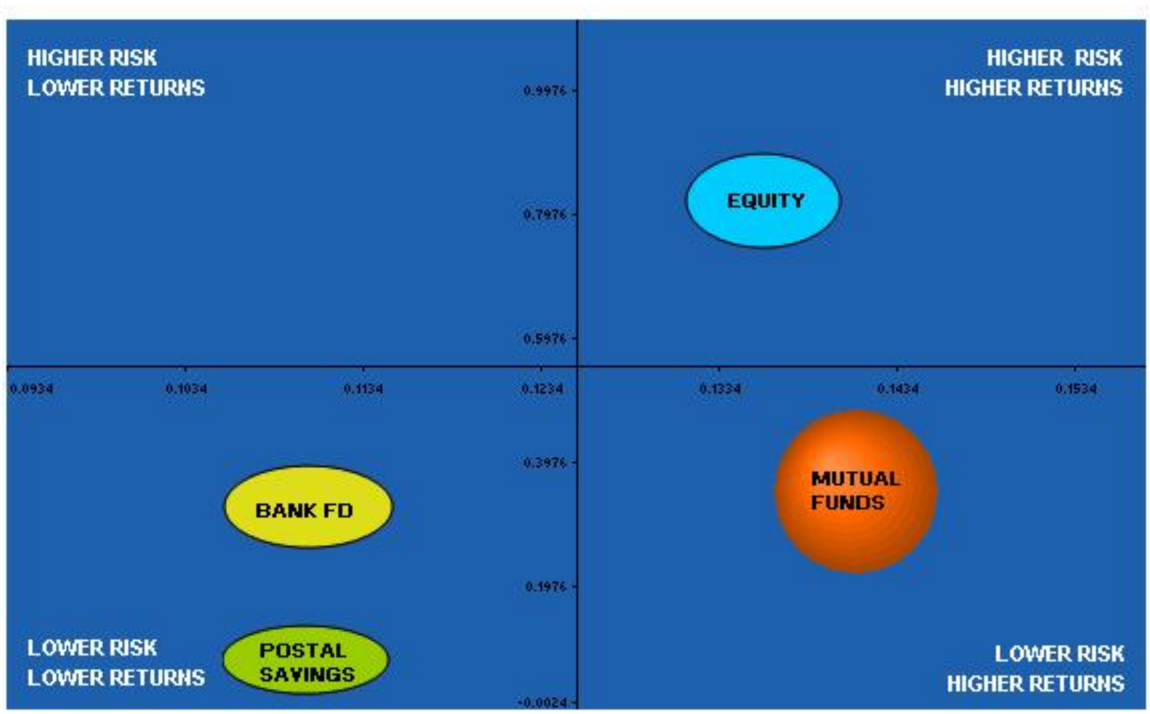
2. Close - Ended Schemes:

These schemes have a pre-specified maturity period. One can invest directly in the scheme at the time of the initial issue. Depending on the structure of the scheme there are two exit options available to an investor after the initial offer period closes. Investors can transact (buy or sell) the units of the scheme on the stock exchanges where they are listed. The market price at the stock exchanges could vary from the net asset value (NAV) of the scheme on account of demand and supply situation, expectations of unit holder and other market factors. Alternatively some close-ended schemes provide an additional option of selling the units directly to the Mutual Fund through periodic repurchase at the schemes NAV; however one cannot buy units and can only sell units during the liquidity window. SEBI Regulations ensure that at least one of the two exit routes is provided to the investor.

3. Interval Schemes:

Interval Schemes are that scheme, which combines the features of open-ended and close-ended schemes. The units may be traded on the stock exchange or may be open for sale or redemption during pre-determined intervals at NAV related prices.

Risk Return Matrix



The risk return trade-off indicates that if investor is willing to take higher risk then correspondingly he can expect higher returns and vise versa if he pertains to lower risk instruments, which would be satisfied by lower returns. For example, if an investors opt for bank FD, which provide moderate return with minimal risk. But as he moves ahead to invest in capital protected funds and the profit-bonds that give out more return which is slightly higher as compared to the bank deposits but the risk involved also increases in the same proportion.

Thus investors choose mutual funds as their primary means of investing, as Mutual funds provide professional management, diversification, convenience and liquidity. That doesn't mean mutual fund investments risk free. This is because the money that is pooled in are not invested only in debts funds which are less riskier but are also invested in the stock markets which involves a higher risk but can expect higher returns. Hedge fund involves a very high risk since it is mostly traded in the derivatives market which is considered very volatile.

Overview of existing schemes existed in mutual fund category: BY NATURE

1. Equity fund:

These funds invest a maximum part of their corpus into equities holdings. The structure of the fund may vary different for different schemes and the fund manager's outlook on different stocks. The Equity Funds are sub-classified depending upon their investment objective, as follows:

- Diversified Equity Funds
- Mid-Cap Funds
- Sector Specific Funds
- Tax Savings Funds (ELSS)

Equity investments are meant for a longer time horizon, thus Equity funds rank high on the risk-return matrix.

2. Debt funds:

The objective of these Funds is to invest in debt papers. Government authorities, private companies, banks and financial institutions are some of the major issuers of debt papers. By investing in debt instruments, these funds ensure low risk and provide stable income to the investors. Debt funds are further classified as:

- **Gilt Funds**: Invest their corpus in securities issued by Government, popularly known as Government of India debt papers. These Funds carry zero Default risk but are associated with Interest Rate risk. These schemes are safer as they invest in papers backed by Government.

- **Income Funds**: Invest a major portion into various debt instruments such as bonds, corporate debentures and Government securities.

- **MIPs**: Invests maximum of their total corpus in debt instruments while they take minimum exposure in equities. It gets benefit of both equity and debt market. These scheme ranks slightly high on the risk-return matrix when compared with other debt schemes.

- **Short Term Plans (STPs)**: Meant for investment horizon for three to six months. These funds primarily invest in short term papers like Certificate of Deposits (CDs) and Commercial Papers (CPs). Some portion of the corpus is also invested in corporate debentures.

- **Liquid Funds**: Also known as Money Market Schemes, These funds provides easy liquidity and preservation of capital. These schemes invest in short-term instruments like Treasury Bills, inter-bank call money market, CPs and CDs. These funds are meant for short-term cash management of corporate houses and are meant for an investment horizon of 1day to 3 months. These schemes rank low on risk-return matrix and are considered to be the safest amongst all categories of mutual funds.

3. Balanced funds:

As the name suggest they, are a mix of both equity and debt funds. They invest in both equities and fixed income securities, which are in line with pre-defined investment objective of the scheme. These schemes aim to provide investors with the best of both the worlds. Equity part provides growth and the debt part provides stability in returns.
Further the mutual funds can be broadly classified on the basis of investment parameter viz,
Each category of funds is backed by an investment philosophy, which is pre-defined in the objectives of the fund. The investor can align his own investment needs with the funds objective and invest accordingly.

By investment objective:

- **Growth Schemes:** Growth Schemes are also known as equity schemes. The aim of these schemes is to provide capital appreciation over medium to long term. These schemes normally invest a major part of their fund in equities and are willing to bear short-term decline in value for possible future appreciation.

- **Income Schemes**: Income Schemes are also known as debt schemes. The aim of these schemes is to provide regular and steady income to investors. These schemes generally invest in fixed income securities such as bonds and corporate debentures. Capital appreciation in such schemes may be limited.

- **Balanced Schemes:** Balanced Schemes aim to provide both growth and income by periodically distributing a part of the income and capital gains they earn. These schemes invest in both shares and fixed income securities, in the proportion indicated in their offer documents (normally 50:50).

- **Money Market Schemes**: Money Market Schemes aim to provide easy liquidity, preservation of capital and moderate income. These schemes generally invest in safer, short-term instruments, such as treasury bills, certificates of deposit, commercial paper and inter-bank call money.

Other schemes

- **Tax Saving Schemes:**

Tax-saving schemes offer tax rebates to the investors under tax laws prescribed from time to time. Under sec.88 of the Income Tax Act, contributions made to any Equity Linked Savings Scheme (ELSS) are eligible for rebate.

- **Index Schemes:**

Index schemes attempt to replicate the performance of a particular index such as the BSE Sensex or the NSE 50. The portfolio of these schemes will consist of only those stocks that constitute the index. The percentage of each stock to the total holding will be identical to the stocks index weightage. And hence, the returns from such schemes would be more or less equivalent to those of the Index.

- **Sector Specific Schemes:**

These are the funds/schemes which invest in the securities of only those sectors or industries as specified in the offer documents. e.g. Pharmaceuticals, Software, Fast Moving Consumer Goods (FMCG), Petroleum stocks, etc. The returns in these funds are dependent on the performance of the respective sectors/industries. While these funds may give higher returns, they are more risky compared to diversified funds. Investors need to keep a watch on the performance of those sectors/industries and must exit at an appropriate time.

Types of returns

There are three ways, where the total returns provided by mutual funds can be enjoyed by investors:

- Income is earned from dividends on stocks and interest on bonds. A fund pays out nearly all income it receives over the year to fund owners in the form of a distribution.

- If the fund sells securities that have increased in price, the fund has a capital gain. Most funds also pass on these gains to investors in a distribution.

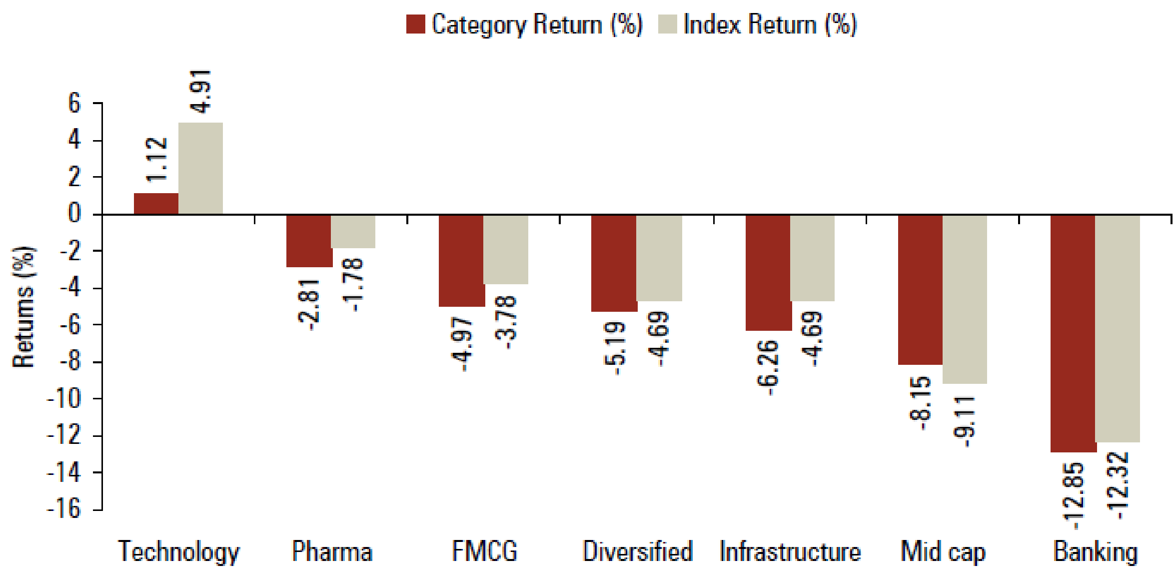
- If fund holdings increase in price but are not sold by the fund manager, the fund's shares increase in price. You can then sell your mutual fund shares for a profit. Funds will also usually give you a choice either to receive a check for distributions or to reinvest the earnings and get more shares.

Present Scenario – Category Analysis

Equity Funds

In the equity funds category, except for technology funds all other fund gave negative returns for the one month period ending 15th Dec 2010. Banking funds were the worst performers as the loan scams played havoc in major banking stocks.

Sub-category wise fund returns vs. respective BSE indices Sub-category wise fund returns vs. respective



Equity Diversified Funds

- Equity markets tanked as FII pulled out from Indian markets on account of domestic negative news lows like loan scams, price rigging by promoters etc.
- The markets corrected 4% in the past one month leading to equity funds delivering negative returns
- The correction should in our view be used as an opportunity to invest for the long-term in diversified funds
- Diversified large-cap oriented funds should be preferred and core portfolio investment in these funds should be done in a staggered manner utilizing each major dip as an opportunity to buy for long Term

Table provided below shows the scenarios of different Equity funds as on 28th December 2010.

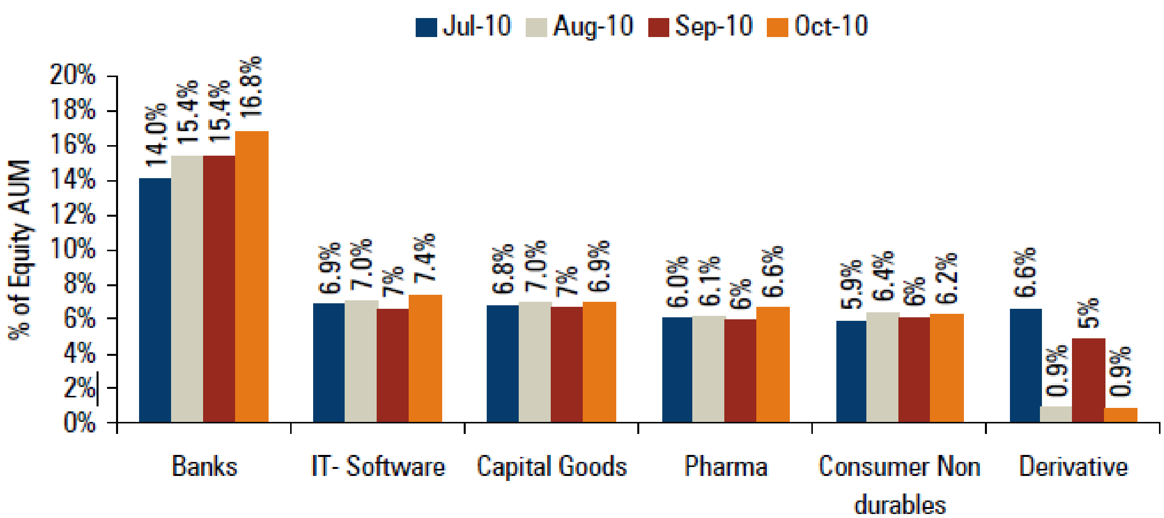
Fund	NAV	NAV Date	Percentage Return		
			3 Months	1 Year	3 Year
ICICI Pru Discovery-G	50.36	28-Dec-10	-1.68	26.06	11.5
HDFC Top 200-G	220.99	28-Dec-10	-2.14	22.71	9.59
IDFC Premier Equity Plan A-G	33.93	28-Dec-10	-3.46	30.9	7.58
Reliance Regular Savings Equi	32.65	28-Dec-10	-2.9	17.89	3.17
ICICI Pru Dynamic-G	109.82	28-Dec-10	0.78	20.66	6.63
Fidelity Equity-G	37.16	28-Dec-10	-1.52	24.94	5.11
BSL Frontline Eqt A-G	92.98	28-Dec-10	-0.97	17.21	4.98
DSPBR Top 100 Eqt Reg-G	104.55	28-Dec-10	-1.78	15.06	3.96
Sundaram Select Midcap Reg-G	159.33	28-Dec-10	-3.36	19.71	2.34
Reliance Growth-G	491.87	28-Dec-10	-4.11	16.63	1.93

Outflows moderated considerably during November giving some comfort to the AMCs…On account of a lack of push to the product and profit booking at 20000+ levels on the Sensex, the equity funds category witnessed outflows to the tune of ~| 17500 crore for FY11 YTD

Balanced & ELSS

Sebi banned naked option writing by mutual funds, which proved fruitful in reducing the exposure to this risky F&O strategy. The exposure thus has reduced to 0.9% in October 2010

Deployment of funds by equity schemes (including ELSS * Balanced Schemes)



BALANCED

- Equity markets are trading at the upper band of the fair value range and G Sec yields are at their structurally upward trend. So the balanced funds may not yield good return in near term
- Balanced funds have more than 65% invested into equities. Hence, they offer tax savings as any capital gain over a one year period becomes tax free and hence even the 35% debt portion is not subjected to tax
- However, the return also gets reduce over the diversified peers owing to the debt component. For example, the balance funds averaged 12.9% return for a one year period while diversified funds averaged 18.6% for the same one year period ending October 15, 2010
- Investors with a limited investible surplus and a lower risk appetite but with a willingness to invest into equities can look to invest in these funds

BALANCED RETURNS

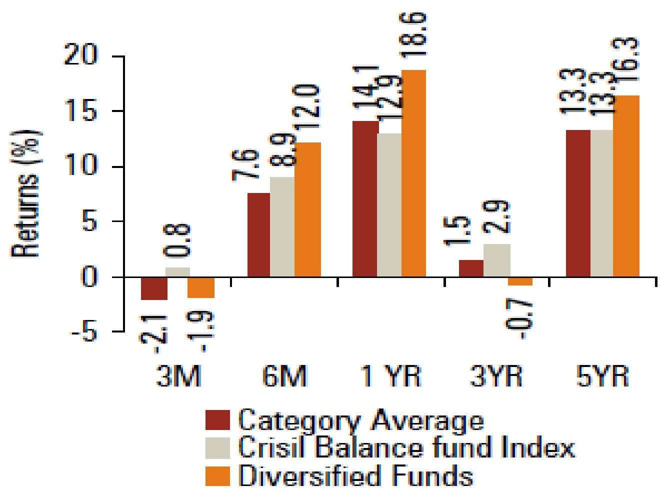


Table provided below shows the scenarios of different Balanced & ELSS funds as on 28th December 2010.

Balanced

Fund	NAV	NAV Date	Percentage Return		
			3 Months	1 Year	3 Year
HDFC Prudence-G	216.7	28-Dec-10	-1.71	25.3	10.5
DSPBR Balanced-G	67.91	28-Dec-10	-2.34	15.1	5.61
Tata Balanced-G	84.21	28-Dec-10	-1.97	13.9	3.59
Magnum Balanced-G	52.86	28-Dec-10	-2.06	11.7	0.58

ELSS

Fund	NAV	NAV date	Percentage Return		
			3 Months	1 Year	3 Year
Fidelity Tax Adv-G	23.07	28-Dec-10	-1.7	27.23	6.01
HDFC TaxSaver-G	244.07	28-Dec-10	-2.9	24.53	6.33
ICICI Pru Tax Plan-G	148.17	27-Dec-10	-0.44	23.6	5.32
Reliance Tax Saver-G	21.89	28-Dec-10	-6.24	22.79	1.73

MIP

- An MIP offers investors an option to invest in debt with some participation in equity, approximately 10-15% of the portfolio
- Investors who want higher returns compared to debt funds and are comfortable with nominal risk in returns may look to invest in MIPs
- The equity portion of the funds provides extra return to the fund while the debt part acts as a cushion towards any fall in equity and provides regular income
- In the current month the volatility in the G Sec yields and a correction in the equity market muted the returns
- Investors should invest in MIPs with lower equity allocation to avoid capital erosion and earn stable returns

Category average vs. benchmark

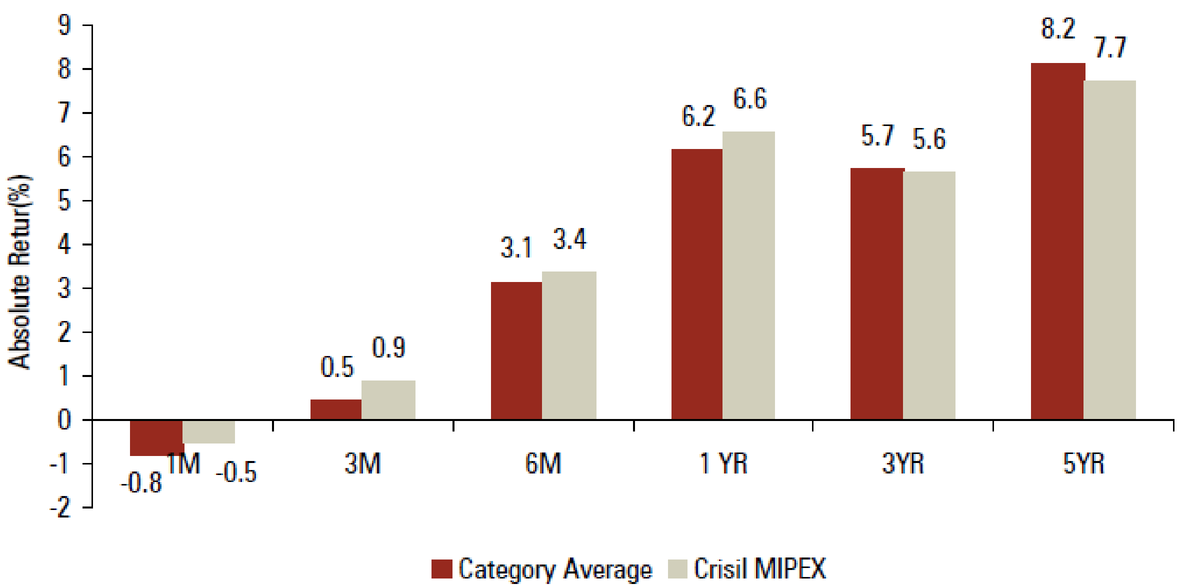


Table provided below shows the scenarios of different MIP funds as on 28th December 2010.

Fund	NAV	NAV Date	Percentage Return		
			3 Months	1 Year	3 Year
Reliance MIP-G	21.63	28-Dec-10	0.09	8.51	13
BSL MIP II Savings 5-G	17.29	28-Dec-10	0.95	5.9	11.4
HDFC MIP Long-term-G	22.86	28-Dec-10	0.22	10.5	9.93
Canara Robeco MIP-G	29.16	28-Dec-10	0.34	8.56	7.17
ICICI Pru MIP-G	25.46	28-Dec-10	1.07	6.97	6.2

Debt Fund

Short term rates are at 7% plus levels and, therefore, ultra short-term and liquid funds have higher yields The yield curve rose across the curve and more at shorter end, after the policy the yield eased off from the high levels which helped the debt fund to close positive on MoM basis

Debt fund returns

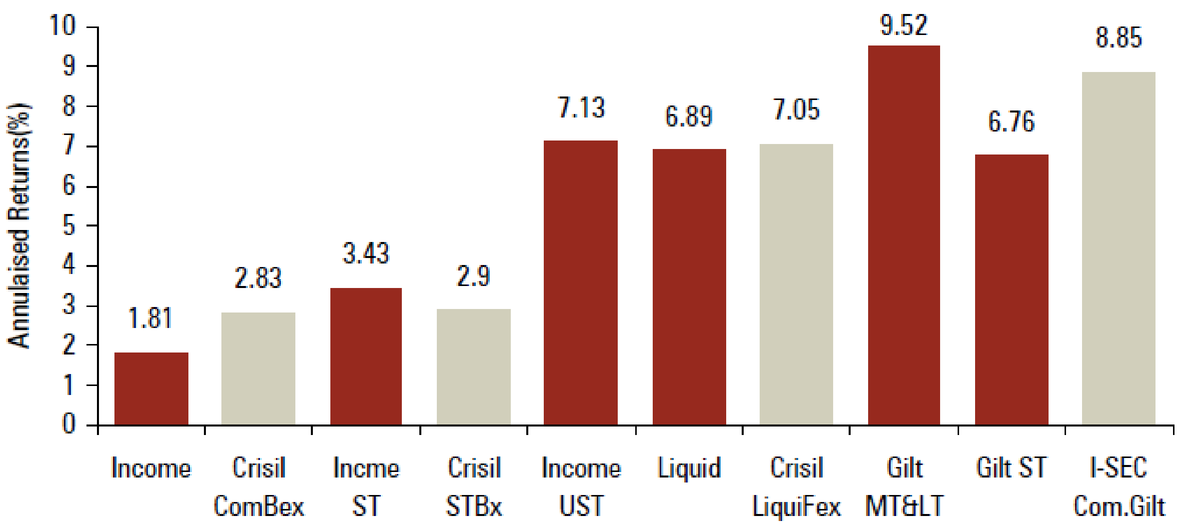


Table provided below shows the scenarios of different Debt funds as on 28th December 2010.

Fund	NAV	NAV Date	Percentage Return		
			3 Months	1 Year	3 Year
BSL GSF LT-G	28.05	28-Dec-10	0.8	9.33	10.74
BSL Dynamic Bond Ret-G	16.05	28-Dec-10	0.85	5.58	9.3
Templeton India ST Income Ret	1916	28-Dec-10	0.85	5.6	8.91
Canara Robeco Income-G	20.32	28-Dec-10	1.27	4.93	13.38
ICICI Pru Income Plan-G	30.73	28-Dec-10	0.79	2.97	9.52
HDFC HI Short-term-G	19.01	28-Dec-10	0.6	5.06	8.93
DWS Ultra ST Reg-G	15.57	28-Dec-10	1.47	5.11	--

Liquid Funds

- The liquidity crunch continues with the RBI lending close to ~| 1 lakh crore on a daily basis.
- Liquidity though ease off a bit for another month in the wake of the last leg of government borrowing, forthcoming IPOs, and advance tax outflows

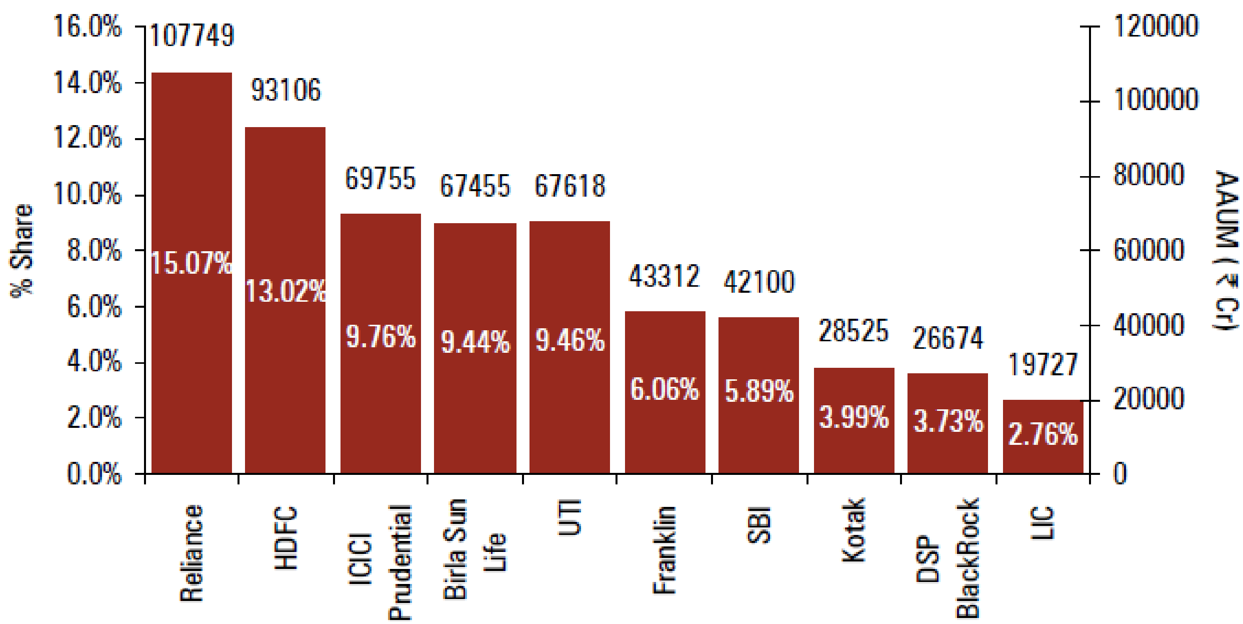
- Call rates are hovering in a 6.–7% range. Short-term yields on money market papers, particularly three to six months CP/CDs, are offering good yields due to the prevailing liquidity crunch

- Liquid funds will continue to offer better returns in the debt funds category.

Fund	NAV	NAV Date	Percentage Return		
			3 Months	1 Year	3 Year
HDFC Cash Mgmt Savings-G	20.1	28-Dec-10	1.69	5.39	6.63
Reliance Liquid Tre-G	23	28-Dec-10	1.55	4.97	6.38

AAUM and market share

Mutual fund will now declare Average Assets Under Management (AAUM) on quarterly basis. AAUM increased by 6% on QoQ basis. On a YTD basis, total inflows are much lower to ~| 12,185 crore from ~| 1,00,000 crore of inflows for the same period last year.



Reliance Mutual Fund continues to be the market leader in terms of AAUM. Among top 10 AMCs, Franklin Templeton Mutual Fund was the highest gainer with 25% QoQ rise in the AAUM .Among top 10 AMCs, LIC Mutual Fund and ICICI Prudential Mutual Fund lost AAUM by 34.35% and 5.47%, respectively, on a QoQ basis

Top picks

Category	Outlook		Top Picks
	Short Term	Long Term	
Equity			
Largecaps	Neutral	Positive	Birla Sunlife Frontline Equity Fund
			HDFC Top 200
			ICICI Pru Focussed Equity Fund
			Fidelity Equity
			Reliance Regular Savings Equity
Midcaps	Neutral	Positive	Sundarm Select Midcap Fund
			IDFC Premier Equity
			ICICI Prudential Discovery Fund
ELSS	Positive	Positve	HDFC Tax Saver
			ICICI Prudential Tax Plan
			Fidelity Tax saver
Debt			
Liquid Funds	Positive		HDFC Cash Mgmnt Saving Plan
			Reliance Liquid Treasury Plan
Short Term Debt Funds	Neutral	-	HDFC High Interest Short Term Fund
			Birla Sun Life Dynamic Bond Fund
			ICICI Prudential Short term plan
Ultra Short Term	Positve	-	Fortis Money Plus Fund
			DWS Ultra Short Term Fund
			ICICI Pru Flex. Income Premium
Income Funds	Neutral	Positive	Fortis Flexi Debt
			ICICI Prudential Income Fund
			HDFC High Interest Fund
Gilts Funds	Neutral	Positive	ICICI Pru Gilt Inv. PF Plan
			Birla Sunlife Gilt Plus
MIP	Positive	Positive	Birla Sun Life MIP II Savings- 5
			Reliance Monthly Income Plan
			HDFC MIP - LTP
Arbritage	Negative	Neutral	UTI SPREAD Fund
			ICICI Prudential Eq. & Deriv. Fund Opt.
			HDFC Arbritage

OUTLOOK

- With equity markets at near high time levels, volatility is expected to increase.
- Appetite for equity investment from institutional investors at lower levels seems strong.
- Global news flows regarding sovereign risk, capital controls and tightening monetary policy to prevent overheating due to capital inflows may have a negative impact on the global equity markets.
- Foreign institutional flows may be volatile on global news flows, which may have its impact on Indian markets as they continue to be dominant market participants.
- India's domestic economy continues to remain on a strong footing with visible growth prospects and the same is expected to drive the equity market over a longer period of time.
- Investors should avoid taking high Cash call as fund managers themselves manage the portfolio in accordance with market development.
- Any significant fall should be utilized as a buying opportunity to build the long-term portfolio.
- Large cap biased funds offer a better risk adjusted opportunity for Investors.
- We believe bank's borrowings under LAF may come down from current Rs.1 lakh crore levels to Rs.50000 to Rs.60000 crore. This should lead to money market rates and short term rates to ease off.
- Overall we believe, banking sector will see some easing in liquidity pressures but until deposit growth rises to 16%-18% from current 13%-15%, one year CP and CD rates will remain near the upper band of 8.5%-9.2% range.
- The overall outlook for the debt market is positive across the curve as we believe that rates across the curve may soften going forward.
- Short-term or conservative investors may consider ultra short-term funds or short-term funds to take advantage of the current high yields in short-term money market instruments.
- Aggressive or long-term investors with an investment horizon of around one year may consider government securities funds. We expect longer duration G-sec yields to ease off further by around 20-30 bps from current levels. The same may add to the total returns.
- Investors may also consider locking in current higher yields through fixed maturity plans with varying maturity.

Source: SEBI, NSE, BSE, ICICI Direct

Contact Details:		
Visit us at	**www.mas.net.in** / **www.ajsh.in**	
Send your query to:	info@mas.net.in	
Ankit Jain	ankit@mas.net.in	+91 98106 61322
Siddhartha Havelia	siddhartha@mas.net.in	+91 98113 25385

Disclaimer: In the preparation of the material contained in this document, Mercurius Advisory Services Private Limited (MAS) and AJSH & Co, Chartered Accountants (AJSH), has used information that is publicly available, including information developed in-house. Some of the material used in the document may have been obtained from members/persons other than the MAS and AJSH and/or its affiliates and which may have been made available to MAS and AJSH and/or its affiliates. Information gathered & material used in this document is believed to be from reliable sources. MAS and AJSH however does not warrant the accuracy, reasonableness and/or completeness of any information. For data reference to any third party in this material no such party will assume any liability for the same. MAS and AJSH and/or any affiliate of MAS and AJSH does not in any way through this material solicit any offer for purchase, sale or any financial transaction/commodities/products of any financial instrument dealt in this material. All recipients of this material should before dealing and or transacting in any of the products referred to in this material make their own investigation, seek appropriate professional advice. We have included statements/opinions/recommendations in this document which contain words or phrases such as "will", "expect" "should" and similar expressions or variations of such expressions, that are "forward looking statements". Actual results may differ materially from those suggested by the forward looking statements due to risks or uncertainties associated with our expectations with respect to, but not limited to, exposure to market risks, general economic and political conditions in India and other countries globally, which have an impact on our services and / or investments, the monetary and interest policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices, the performance of the financial markets in India and globally, changes in domestic and foreign laws, regulations and taxes and changes in competition in the industry. By their nature, certain market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses could materially differ from those that have been estimated. MAS and AJSH (including its affiliates) and any of its officers directors, personnel and employees, shall not liable for any loss, damage of any nature, including but not limited to direct, indirect, punitive, special, exemplary, consequential, as also any loss of profit in any way arising from the use of this material in any manner. The recipient alone shall be fully responsible/ are liable for any decision taken on the basis of this material. The investments discussed in this material may not be suitable for all investors. Any person subscribing to or investing in any product/financial instruments should do so on the basis of and after verifying the terms attached to such product/financial instrument. Financial products and instruments are subject to market risks and yields may fluctuate depending on various factors affecting capital/debt markets. Please note that past performance of the financial products and instruments does not necessarily indicate the future prospects and performance thereof. Such past performance may or may not be sustained in future. MAS and AJSH (including its affiliates) or its officers, directors, personnel and employees, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation in the financial instruments/products/commodities discussed herein or act as advisor or lender / borrower in respect of such securities/financial instruments/products/commodities or have other potential conflict of interest with respect to any Recommendation and related information and opinions. The said persons may have acted upon and/or in a manner contradictory with the information contained here. No part of this material may be duplicated in whole or in part in any form and or redistributed without the prior written consent of MAS and AJSH. This material is strictly confidential to the recipient and should not be reproduced or disseminated to anyone else.