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

Update

- Indian equity markets continue to gain momentum during August 2016 to make a fresh 52-week high on the back of positive global markets and expectations of the GST bill getting passed in the Rajya Sabha. Above average rainfall during July (most crucial month for sowing season) also helped gain momentum

- The expectation of monetary stimulus by central bankers to prevent fallout of Brexit turned global risk sentiment benign

- Global equity markets continued their positive momentum during June, 2016 and move higher. Markets witnessed heightened volatility intra-month following the declaration of results of the UK referendum on EU membership. While UK’s exit from EU could hurt UK’s long term growth prospects, its effects on the rest of the world in the near future are more uncertain. After the initial knee jerk reaction, markets seem to have settled down. Key global equity markets had recovered their losses by the end of the month

- Headline indices, after having fallen 23% from the peak in 2015 till February 2016, have recovered 22% since then till August 2016. Disciplined investors who continued to invest during the market fall have benefited the most

- Midcap funds continue their outperformance over largecap funds as investors continue to search for growth opportunities amid a positive macroeconomic outlook

- The sector leadership seems to have changed in the recent market pullback. While healthcare and IT sector were outperforming sectors till 2015, interest rate sensitive/domestic growth related/high beta sectors have taken the leadership in 2016 so far

- Mutual funds have been significant net buyers in the last two years. Inflows into equity mutual funds continue to remain healthy. Inflows into pure equity funds have reached ₹1.46 lakh crore since April 2014 to June 2016

Outlook

- The broader markets, as represented by the midcap and small cap indices, have displayed a strong outperformance over the last month. The same clearly highlights increased market participation and the inherent strength in the trend. We expect this outperforming trend of broader markets to continue in the short-term

- The progress of monsoons, so far, has been quite satisfactory and has largely been in line with the forecast made by the Indian Meteorological Department (IMD). In July, which marks the most important month both in term of quantum (accounts for 33% of total seasonal rainfall) as well as timing of rainfall (germination of seeds and plant growth), rainfall was abundant at 107% of LPA (7% surplus) thereby resulting in at par (100% of LPA) rainfall in the first half of the current monsoon season. Going forward, IMD has maintained its monsoon forecast for 2016 at 106% of LPA with rainfall in the second half of the monsoon season expected at 107% of LPA with rainfall in August expected at 104% of LPA

- If global markets remain supportive, Indian markets are likely to perform well as the domestic economic outlook is improving on normal monsoons, government policy action and improved liquidity from the RBI. Seventh Pay Commission and OROP remain triggers for a consumption boost for the economy

- We believe investors should be constructive on equity markets and accumulate on dips for the next two to three years
Debt Markets

**Update**

- The Indian debt market witnessed one of the periods in July/August 2016 with benchmark 10 year G-Sec yield rallying round 30 bps to its three year low of 7.10%. Short-term rates also fell further around 20-50 bps on the back of surplus system liquidity.
- The event of Brexit led to increased expectation of further monetary/fiscal stimulus by the central bankers to support economic growth. The same along with benign global growth outlook led to a rally in global fixed income markets. Sovereign yields of most major economies fell sharply post Brexit.
- Domestically, market speculation that the next RBI governor could follow a more accommodative stance than outgoing governor Raghuram Rajan also added to positive global market sentiments.
- Liquidity in the Indian debt market improved significantly over the last month on the back of a significant amount of OMOs done by the RBI.
- System liquidity, which was in deficit, to the extent of around ₹1.8 lakh crore in the first quarter of 2016, has turned into surplus. Borrowing under liquidity adjustment facility (LAF) has fallen into the negative territory indicating that banks/financial institutions are not borrowing any more from the RBI.
- Money market rates fell to multi year lows with three month, six months and 12 month CD falling to around 6.5%, 6.75% and 7.25%, respectively.
- G-sec yields have also fallen in the range of 20-50 bps since February 2016. Globally, the yield on sovereign papers has fallen significantly post Brexit event on rising risk aversion. The same has helped ease domestic yields as well.
- Expectations on the announcement of new RBI Governor have also pushed the long term G-Sec yield down, which were otherwise stuck in a range. The market is expecting the new RBI Governor to adopt a dovish stance on the inflation targeting regime.

**Outlook**

- Although the latest PCI inflation was higher than market expectations, the medium-term outlook remains positive on normal monsoon. The monsoon after a delayed start has progressed rapidly in July and August covering almost all parts of country. Going forward, IMD has maintained its monsoon forecast for 2016 at 106% of LPA with rainfall in the second half of the monsoon season expected at 107% of LPA with rainfall in August expected at 104% of LPA.
- Although the outlook on G-Sec yields remains positive, the scope of a further fall in yields has reduced given the recent sharp fall. Duration strategy should be played through actively managed income or dynamic bond funds. They will be able to make swift duration change within G-Seics or switch between corporate bonds and G-Sec within specific duration.
- As the outlook on system liquidity is positive, short-term debt funds are best placed. Credit opportunities funds with consistent track record and exposure to stable sectors offer good investment opportunity to earn higher accrual. Ultra short-term debt fund and liquid funds remain well placed but returns are likely to be lower as short-term CP/CD rates have already fallen significantly.
MF industry synopsis

- In FY16, there was an inflow of ₹ 103288 crore into the Indian mutual fund industry. Out of the total inflow, ₹ 74024 crore came into equity and ELSS funds. Income funds were able to collect ₹ 14738 crore in FY16. Total AUM at the end of FY16 was ₹ 1232824 crore, increasing 14% YoY, of which 46% was held by income funds and 31% by equity funds. In the first four months of the new financial year, there was a net inflow of ₹ 193161 crore of which ₹ 175023 crore was in income funds and liquid funds as institutional money flowed in due to surplus liquidity. Equity funds witness inflow of ~ ₹ 10500 crore in equity funds.

Exhibit 1: Growth of total industry AUM over the years...

Source: AMFI, ICICIdirect.com, Research

Exhibit 2: Category-wise inflow/outflow for FY16 & FY15...

Source: Company, ICICIdirect.com, Research

Exhibit 3: Category wise AUM share at end of FY16 of major AMCs

Source: ACE MF, ICICIdirect.com Research

Exhibit 4: AUM share March 2016...share of equity AUM maintained YoY

Source: AMFI, ICICIdirect.com Research

Exhibit 5: Top 10 AMCs based on average AUM

Source: AMFI, ICICIdirect.com Research

Exhibit 6: Fastest growing AMCs in FY16

Source: AMFI, ICICIdirect.com Research
MF Category Analysis

**Equity funds**

- FMCG funds continue to remain consistent performers and have been best performers in the last year.
- Pharma funds continue to underperform on negative news flows and are the worst performers in the last year. However, over a longer period of time, they remain the best performing category.
- IT funds also among the worst performing category as concerns impact on business and IT spending post Brexit and lower guidance by the managements having impact on stock prices.

**Exhibit 7:** IT, FMCG funds continue to be stable performing category (returns as on July 18, 2016)

Inflows into equity schemes have increased and have remained consistent in the last two years. Higher inflows have flowed into midcap funds leading to an increase. There was an inflow of ₹ 74024 crore into equity funds in FY16. However, equity AUM increased only by ₹ 41264 crore. This was mainly led by a decline in market value.

**Exhibit 8:** Pure equity funds witness outflows during May but ELSS witness inflow resulting in total positive inflows

Exposure to banks and finance stocks together account for the highest proportion with 25% of equity assets followed by technology and pharma.

**Exhibit 9:** Equity AUM at all-time high levels

**Exhibit 10:** Deployment of equity funds

<table>
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<tr>
<th>Allocation</th>
<th>Banks</th>
<th>Software</th>
<th>Pharma</th>
<th>Auto</th>
<th>Non-Durables</th>
<th>Finance</th>
<th>Petroleum</th>
<th>Construction</th>
<th>Cement</th>
<th>Industrial Products</th>
</tr>
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<tbody>
<tr>
<td>₹ crore</td>
<td>62196</td>
<td>41563</td>
<td>31617</td>
<td>27526</td>
<td>2134</td>
<td>3716</td>
<td>18230</td>
<td>16477</td>
<td>15876</td>
<td>14583</td>
</tr>
<tr>
<td>% of total</td>
<td>19.9</td>
<td>10.1</td>
<td>7.7</td>
<td>6.7</td>
<td>5.9</td>
<td>5.8</td>
<td>4.4</td>
<td>3.9</td>
<td>3.5</td>
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Source: AMFI, ICICIdirect.com Research, Sector Classification (as per Amfi)
Equity diversified funds

- Indian markets, after being in a declining trend from March 2015 to February 2016, recovered some of their gains post Budget. Markets seem to have formed a near term bottom in February 2016. Indian markets may consolidate in the near term but the overall downward trend, which started last year, seems to have reversed.

- Midcap and small cap funds continue to outperform largecap and diversified funds. S&P BSE Sensex has risen 22% from since March 2016 while BSE Midcap is up 36% during the same period.

- Beaten down sectors like banking, real estate, consumer goods and capital goods outperformed since the Budget in the market recovery. The pharma sector has been underperforming on regulatory concerns and pricing pressure in export markets in the last few months.

- Global equity markets continued their positive momentum during June, 2016 and move higher. Markets witnessed heightened volatility intra-month following the declaration of results of the UK referendum on EU membership. While UK’s exit from EU could hurt UK’s long term growth prospects, its effects on the rest of the world in the near future are more uncertain. After the initial knee jerk reaction, markets seem to have settled down. Key global equity markets had recovered their losses by the end of the month.

- The broader markets, as represented by the midcap and small cap indices continue to display a strong outperformance over the last month. This clearly highlights increased market participation and inherent strength in the trend. We expect this outperforming trend of broader markets to continue in the short-term.

- We expect markets to enter a consolidation phase, going forward, to work off the overbought conditions developed after the strong rally since March. We believe any dips from current levels in the coming months should be used as an incremental buying opportunity.

Recommended funds

**Large cap**
- Birla Sunlife Frontline Equity
- ICICI Prudential Focused Bluechip Equity
- SBI Bluechip Fund

**Diversified**
- Franklin India Prima Plus Fund
- Reliance Equity Opportunities
- ICICI Prudential Value Discovery Fund

**Midcap**
- HDFC Mid-Cap Opportunities Fund
- Franklin India Smaller Companies Fund
- SBI Magnum Global Fund

(Refer to [www.icicidirect.com](http://www.icicidirect.com) for details of the fund)
Equity Infrastructure fund

- The investment cycle that has been under pressure in the last few years, has started showing signs of emerging green shoots as the government is focusing on infrastructure development (accounts for ~60% of planned investment vs. ~50% few years back). Furthermore, instances of stalled projects in the government vertical have come down sharply whereas the private sector is still seeing a slow recovery in stalled projects.
- We have also analysed the pattern of tendering in the last 18 months, which further validates that the government is reviving the investment cycle as the government accounts for ~99% of total tenders floated.
- In terms of segments, road, railways, water and power T&D lead the recovery, which is expected to continue, going ahead, into FY17E as well. Out of total tenders floated in FY16 worth ₹ 6.2 lakh crore, the share of the above segments comprised ~64.7% of overall tendering activity amounting to ~₹ 4 lakh crore.
- Going ahead, while we believe there would be opportunities in infrastructure, we remain selectively positive on the sector.

Preferred Picks

- Franklin Build India Fund
- L&T Infrastructure Fund
- ICICI Prudential Infrastructure Fund

Refer www.icicidirect.com for details of the fund.
Equity Banking Funds

- FY16 has been a tough year for banks with significant addition to NPAs, SDR and 5/25 cases resulting from troubled corporate in infra, metals, textile and power
- GNPA surged 90% YoY to ₹ 567937 crore. Accordingly, the GNPA ratio rose ~160 bps QoQ to 7.7%. Private banks also saw higher stress with 60% YoY GNPA surge. Stressed assets under 5:25 scheme & strategic debt restructuring (SDR) continued. Accordingly, provisions jumped 140% YoY and 57% QoQ to ₹ 76632 crore. Infra, metals, steel, textiles & power largely contributed the asset quality pains. Despite a large amount of NPA stress recognised by banks in H2FY16 owing to RBI’s asset quality review, all major banks still expect the next two or three quarters to be challenging on the asset quality and credit growth front
- One of the highlight of Q4 was the “watchlist” of stressed booked provided by large banks like SBI of ₹ 31000 crore and Axis Bank of ₹ 22000 crore; of which ~60-70% could slip into NPA over the next four to eight quarters
- With lower credit growth remaining a hindrance and pressure of incremental NPA still hovering around, we continue to remain cautious on banks. Among peers, private banks are expected to continue to outperform. However, sticking to quality large caps is recommended
- We continue to maintain our underperform stance on the sector

Preferred Picks

- ICICI Prudential Banking & Financial Services
- Reliance Banking Fund
- UTI Thematic - Banking Sector Fund

Equity FMCG

- Our FMCG coverage universe is expected to witness higher revenue growth as we believe the expected above normal monsoon may spur volume growth from rural India while an urban recovery continues to remain slow
- Benign input costs are likely to limit the extent of price-led sales growth. However, operating margins continue to remain at elevated levels due to continued benefits of lower raw material cost. RM cost (percentage of sales) for our coverage universe is expected to fall ~100 bps. We believe companies would increase promotional spends significantly to drive urban demand
- We expect GST implementation to lead to a reduction in logistics cost along with a simplified tax structure and level playing field for organised players in categories dominated by highly unorganised entities

Preferred Picks

- ICICI Prudential FMCG Fund
- SBI FMCG Fund
Equity Pharma funds

- FY16 turned out to be a demanding fiscal for pharma players after a near hassle-free ride for five years. This was attributable to the triple whammy impact of 1) USFDA issues (483s and warning letters), 2) NLEM/FDC impact in the domestic market and 3) political turmoil and adverse currency shock in EMs. Indian companies received nine USFDA warning letters in FY16, by far the highest run rate over the years.

- The concerns increased due to high frequency of inspections and the random nature of issues flagged in the scrutiny. Paradoxically, however, the fiscal also witnessed highest ever ANDA approvals for Indian companies (177 approvals vs. 92 in FY15). However, investors, by and large, remained sceptical as almost all players received either warning letters or critical Form 483 observations.

- Profitability growth, however, continues to remain healthy as reflected even in the latest quarterly results.

- The underperformance in the last year has to be viewed in conjunction with the significant outperformance in the last five years.

- We continue to maintain our positive view on the sector on the back of earning visibility, consistent operating cash flows, healthy operating margins, relatively low leverage and strong return ratios.

Preferred Picks

- Reliance Pharma Fund
- SBI Pharma Fund
- UTI-Pharma & Healthcare

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

Equity Technology Funds

- Tier-I IT companies reported average 1.7% QoQ dollar revenue growth in Q4FY16 (below our 2.2% growth estimates) vs. 0.5% in Q3FY16 and 1.2% decline in Q4FY15. Constant currency revenues grew 2.1% as dollar growth was negatively impacted (~40 bps) by cross currency headwinds. Inorganic investments were key margin headwinds partially offset by currency tailwinds and operational efficiency. CY16E IT budget commentary was consistent while FY17E earnings commentary was stable led by healthy deal signings and traction in digital technologies.

- Operationally, discretionary spending remains healthy in the US while Europe rebounded and led quarterly growth. Insurance, telecom and oil & gas verticals are structurally challenged and growth continues to be uneven.

- Upsides could be in line with earnings upgrades given blended valuations are at ~16x FY17E earnings. However, sharp sell-offs should be used to accumulate given long-term growth prospects.

Preferred Picks

- ICICI Prudential Technology Fund
- DSPBR Technology Fund

Refer to www.icicidirect.com for details of the fund
Exchange Traded Funds (ETF)

- In India, three kinds of ETFs are available: Equity index ETFs, liquid ETFs and gold ETFs.
- An equity index ETF tracks a particular equity index such as the BSE Sensex, NSE Nifty, Nifty Junior, etc.
- An equity index ETF scores higher than index funds on several grounds. The expense of investing in ETFs is relatively less by 0.50-1.00% in comparison to an index fund. The expense ratio for ETFs is in the range of 0.50-0.75%, excluding brokerage, while for index funds the expense ratio varies in the range of 1.0-1.5%. However, brokerage (which varies) is applicable on ETFs while there are no entry loads now on index funds.
- Tracking error, which explains extent of deviation of returns from the underlying index, is usually low in ETFs as it tracks the equity index on a real time basis whereas it is done only once in a day for index funds.
- ETFs also provide liquidity as they are traded on stock exchanges and investors may subscribe or redeem them even on an intra-day basis. This is unavailable in index funds, which are subscribed/redeemed only on a closing NAV basis.
- There are over 400 ETFs traded globally. ETFs are transparent and cost efficient. The decision on which ETF to buy should be largely governed by the decision on getting exposure in that asset class.
- Volumes are higher only in the Goldman Sachs Benchmark ETFs and tracking error is also lowest at 0.01%. Therefore, it is our top pick for investors wanting Nifty-linked returns.
- Gold ETF witnessed a decline in AUM post February as investors booked profit after the recent rally.
- Other ETFs, which are mainly equity ETF has gained significantly in the last year with the corpus now at ₹20449 crore.

Exhibit 11: Gold ETF corpus has been stable at around 6500 crores

Exhibit 12: AUM of Equity ETFs crossed ₹20000 crores in July 2016...

Source: AMFI, ICICIdirect.com Research

Traded volumes should be the major criterion that is used while deciding on investment in ETFs. Higher volumes ensure lower spread and better pricing to investors...

Tracking error, though it should be considered, is not the deciding factor as variation among funds is not huge...

Source: AMFI, ICICIdirect.com Research
Balanced funds continue to gain traction from investors as moderate risk profile and tax benefit attracted investors to the category. Balanced funds witnessed inflows of ₹ 2079 crore in July 2016. Inflows in the last 25 months since June 2014-July 2016 has touched ₹ 35581 crore. Over the last two years, the balanced space has emerged as one of the fastest growing equity categories and offers an ideal investment option for first-time equity investors.

Balanced funds are hybrid funds. More than 65% of the overall portfolio is invested in equities. Hence, as per provisions of the Income Tax Act, 1961, any capital gains over one year become tax free. Also, dividends declared by funds are tax free. In case one separately invests 35% of one’s investible corpus in a debt fund, the same will be subject to higher taxation. However, if the whole corpus is invested in balanced funds, 100% shall have lower taxation applicable as mentioned above. After a sharp rally in equity markets, the funds can be a preferred investment avenue as the debt proportion serves to protect on intermediate relief rallies or the downturn while providing 65% participation on further upsides.

Preferred Picks
- HDFC Balanced Fund
- ICICI Prudential Balanced - Advantage Fund
- SBI Balanced Fund
- Tata Balanced Fund

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

Monthly Income Plans (MIP)
- An MIP offers investors an option to invest in debt with some participation in equity, ~10-25% of the portfolio. They are suitable for investors who seek higher return from a debt portfolio and are comfortable taking nominal risk. The debt corpus of the portfolio provides regular income while the equity portion of the fund provides alpha. However, returns can also get eroded by a fall in equities.
- MIPs can be classified into aggressive MIP and conservative MIP based on its equity allocation. Risk averse investors should invest in MIPs with lower equity allocation to avoid capital erosion.
Preferred Picks
- Birla Sun Life MIP II - Savings 5 Plan
- ICICI Prudential MIP 25
- DSPBR MIP Fund
(Refer www.icicidirect.com for details of the fund)

Arbitrage Funds
- Arbitrage funds seek to exploit market inefficiencies that get manifested as mispricing in the cash (stock) and derivative markets
- Availability of arbitrage positions depends very much on the market scenario. A directional movement in the broader index attracts speculators in the market while cost of funding makes futures positions biased
- Arbitrage funds are classified as equity funds as they invest in equity share and equity derivative instruments. Since these are classified as equity funds for taxation, dividends declared by the funds are tax free. No capital gains tax will be applicable if they are sold after a year
- These funds can be looked upon as an alternative to liquid funds. However, for these funds, returns totally depend on arbitrage opportunities available at a particular point of time and investors should consider reviewing the same before investing. Returns of arbitrage funds are non-linear and, therefore, unsuitable for investors who want consistent return across time period
- Arbitrage funds should be used as a liquid investment and should not be a major part of the investor’s portfolio
- Availability of arbitrage positions depends very much on the market scenario. A directional movement in the broader index attracts speculators in the market while cost of funding makes future positions biased
- In case of positive movement, long build-up in futures puts pricing in an upward bias and creates a window for direct arbitrage positions
- On the other hand, negative bias attracts fresh sellers in the market. Speculators try to sell the stock much cheaper than theoretical prices. In such situations, a reverse arbitrage opportunities arise
- On the other hand, a range bound market does not give ample room to create arbitrage positions
- Currently, there are few arbitrage opportunities available in the market, which can lead to lower returns

Preferred Picks
- ICICI Prudential Equity - Arbitrage Fund – Regular
- IDFC Arbitrage Fund - (Regular)
- Kotak Equity Arbitrage Fund
- SBI Arbitrage Opportunities Fund
(Refer to www.icicidirect.com for details of the fund)
Debt funds

Exhibit 15: Category average returns

Benchmark 10 year G-sec yield has witnessed correction of around 30 bps post Brexit event and announcement of new RBI Governor resulting in outperformance of duration funds.

Source: CRISIL
Note: Annualised returns as on August 19, 2016

Exhibit 16: Deployment of funds: March 2016

Investment into securities with maturity of less than 90 days and more than a year dominate total investments by mutual funds.

Source: SEBI, ICICIdirect.com Research
Note: Holding as percentage of total AUM

Exhibit 17: G-Sec yield curve shifts lower...

Source: Bloomberg

Exhibit 18: ...so does corporate bond yield curve

Source: Bloomberg
Liquid Funds

- Liquid fund returns have moderated to sub 7.00% as short-term has fallen significantly in the last few months. Returns, going forward, are likely to be in the range of around 6.5%
- Liquid funds witnessed an inflow of ₹92277 crore in July 2016 as surplus liquidity prompted institutional investors to park their money in mutual funds
- Short term rates (T-bills, CBLO rates) hovered around repo rate. With an improvement in liquidity conditions, the certificate of deposit and commercial paper rates in the three month bracket have fallen significantly. Currently three-month CD rates are trading at around 6.5% while three-month CPs rates are around 7.0%
- For less than a year, individuals in the higher tax bracket should opt for dividend option as the dividend distribution tax @ 28.325% is marginally lower. Also, though the tax arbitrage has reduced, they still earn better pre-tax returns over bank savings (3-4%) and current accounts (0-3%)
- Changes in taxation rules announced in Union Budget 2014 are also applicable to liquid funds, as post tax returns in less than a three-year period get reduced for individuals falling in the higher tax bracket (30% tax slab) and for corporates

Exhibit 19: Call rates near repo rate

Exhibit 20: CP/CD rates have fallen sharply

Exhibit 21: Flows into liquid funds remain volatile on institutional activity

Exhibit 22: AUM increased after falling for 2 months

Preferred Picks
- HDFC Cash Management Fund - Savings Plan
- ICICI Pru Liquid Plan
- Reliance Liquid Fund - Treasury Plan
(Refer to www.icicidirect.com for details of the fund)
Income funds

- System liquidity improved significantly in the last one month with yield on money market instruments declined by 50bps and yield on long term government securities declined by around 30bps. Income funds overall delivered superior return on the back of fall in yields across the yield curve.
- One month annualized return in the short-term debt funds category was around 13.0% while income fund category delivered around 21.3% annualized return during the same period.
- Long term income funds performed well in the last few months post the Union Budget as the fall in G-Sec yields helped them deliver better returns.
- Overall, the direction of G-sec yield remains southward given the overall improvement in macro economic data. However, higher supply, particularly from state governments because of higher UDAY bonds, may continue to put pressure on yields. Therefore, dynamic bond funds are better placed than pure duration or G-Sec funds.
- Short-term debt funds remain a stable performing category, especially in the current volatile environment. Credit funds with reasonable credit quality should be preferred over an aggressive credit fund.

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

### Recommended funds

**Ultra Short Term Funds**
- Birla Sun Life Savings Fund
- ICICI Prudential Flexible income

**Short Term Funds**
- Birla Sunlife short term fund
- HDFC Short Term Fund
- ICICI Pru Short Term Plan

**Short Term Funds – Credit opportunities**
- Birla Sunlife Short Term opportunities term
- HDFC Corporate debt opportunities
- ICICI Prudential Regular Savings

**Long term/Dynamic**
- Birla Sunlife income plus
- ICICI Prudential Dynamic Bond Fund
- IDFC dynamic bond fund

(Refer [www.icicidirect.com](http://www.icicidirect.com) for details of the fund)
Gilt Funds

- Gilt funds delivered an annualised return of 27% in the last one month as G-sec yields have fallen around 30 bps post the Brexit event and announcement of new RBI Governor.

- The liquidity situation was tight at the start of the year 2016 but eased off significantly post March. RBI has done significant amount of bond purchases through OMO (open market operation) and the same has eased off liquidity pressure.

- The progress of monsoons, so far, has been quite satisfactory and has largely been in line with the forecast made by the Indian Meteorological Department (IMD). In July, which marks the most important month both in term of quantum (accounts for 33% of total seasonal rainfall) as well as timing of rainfall (germination of seeds and plant growth), rainfall was abundant at 107% of LPA (7% surplus) thereby resulting in at par (100% of LPA) rainfall in the first half of the current monsoon season. Going forward, IMD has maintained its monsoon forecast for 2016 at 106% of LPA with rainfall in the second half of the monsoon season expected at 107% of LPA with rainfall in August expected at 104% of LPA.

- The combination of better liquidity conditions, increased OMO purchases by RBI and quarterly increases in FPI debt limit is a positive development for the overall debt market.

- Although the outlook on G-sec yields remains positive, the duration strategy should be played through actively managed income or dynamic bond funds. They will be able to make swift duration change within G-secs or switch between corporate bonds and G-secs within specific duration.

Recommended funds

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

(Refer to [www.icicidirect.com](http://www.icicidirect.com) for details of the fund)

Exhibit 25: Investors continue to book profit leading to outflows from gilt funds

Source: AMFI, ICICIdirect.com Research
**Gold: Likely to consolidate in near term**

- Global gold prices witness a consolidation after having rallied to a two-year high in the first week of July 2016 on the back of heightened risk aversion post the unexpected Brexit event. The global risk-off trade was visible across asset classes with perceived safe haven assets like gold and treasuries attracting investor’s interest.
- Global gold prices crossed US$1360 per ounce in July 2016 rising sharply by almost 12% since June. Indian prices also crossed ₹31000 per 10 gram on MCX.
- As the UK decided to exit European Union, concerns were raised on negative implications on international trade. Many analysts believe the Brexit could have a severe impact on the recovery efforts of both the UK and EU. Currency movement was extremely sharp further accentuating the impact of the event.
- Gold has witnessed a spectacular rally since the start of calendar year 2016. Global prices have rallied 28% since the start of the year. The rally was triggered by fears on a hard landing in China, which resulted in a sharp sell-off in Chinese equities that extended to other parts of the world. This sent investors toward safe-haven assets, boosting ETF holdings. Buying pressure in gold was bolstered by downward revisions to the expected path of US interest rates from investors and the Fed. Fed tightening expectations through the first quarter pushed gold higher by pressuring the dollar 4% lower and by moving real yields on the 10-year US treasuries to their lowest since April 2015.
- The expectation of quantum of rate hike by the US Fed has declined significantly post recent turmoil in global capital markets. The market is now factoring in just one rate hike in the whole of calendar year 2016 especially post the dovish statement from the US Fed Chair. Interest rate hikes, in general, are negative for gold prices. With rate hike concerns receding, the overhang on prices also abates in the near term.
- The steep fall in industrial commodity prices, including crude oil, led to a sharp fall in inflation and inflationary expectations across the globe and particularly in developed economies. The same led to reduced demand for gold as an inflationary hedge investment.
- Medium-term demand will, however, continue to be impacted by the overall global environment, particularly the US Fed rate hike trajectory.

**Exhibit 26: Gold prices trade around 2 year levels**

Investment demand for gold is also governed by the broader economic climate. Currently, there is a lot of uncertainty surrounding currency devaluation, global economic growth prospects and equity & commodity market turmoil. The same is likely to keep demand for gold as a safe haven asset upbeat in the near term.

**Exhibit 27: Domestic prices follows global trend**

Source: Company, ICICIdirect.com Research
There has been an outflow from gold ETFs in the past two years. After the surge in gold prices since December 2015, investors have preferred sovereign gold bonds over gold ETFs and gold ETFs have witnessed outflows.

Exhibit 28: Outflows from gold ETFs continue…

Source: Amfi, ICICIdirect.com Research
Model Portfolios

Equity funds model portfolio

Investors who are wary of investing directly into equities can still get returns almost as good as equity markets through the mutual fund route.

We have designed three mutual fund model portfolios, namely, conservative, moderate and aggressive mutual fund portfolios. These portfolios have been designed keeping in mind various key parameters like investment horizon, investment objective, scheme ratings, and fund management.

We have changed the mutual funds portfolio in July, to include midcap funds as we believe an improvement in the growth scenario may generate better alpha in midcap stocks over large cap stocks.

Exhibit 29: Equity model portfolio

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Aggressive</th>
<th>Moderate</th>
<th>Conservative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review Interval</td>
<td>Monthly</td>
<td>Monthly</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Risk Return</td>
<td>High Risk - High Return</td>
<td>Medium Risk - Medium Return</td>
<td>Low Risk - Low Return</td>
</tr>
<tr>
<td>Funds Allocation</td>
<td>% Allocation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Franklin India Prima Plus</td>
<td>-</td>
<td>-</td>
<td>20</td>
</tr>
<tr>
<td>Birla Sunlife Frontline Equity</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>ICICI Prudential Dynamic Plan</td>
<td>-</td>
<td>-</td>
<td>20</td>
</tr>
<tr>
<td>SBI Bluechip Fund</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>ICICI Prudential Value Discovery</td>
<td>20</td>
<td>20</td>
<td>-</td>
</tr>
<tr>
<td>HDFC Midcap Opportunities</td>
<td>20</td>
<td>20</td>
<td>-</td>
</tr>
<tr>
<td>Franklin India Smaller Companies</td>
<td>20</td>
<td>20</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: ICICIdirect.com Research

Exhibit 30: Model portfolio performance: One year performance (as on July 31, 2016)

<table>
<thead>
<tr>
<th>%</th>
<th>Aggressive</th>
<th>Moderate</th>
<th>Conservative</th>
<th>BSE 100</th>
</tr>
</thead>
<tbody>
<tr>
<td>11%</td>
<td>-3%</td>
<td>7%</td>
<td>5%</td>
<td>-3%</td>
</tr>
</tbody>
</table>

Source: ACE MF, ICICIdirect.com Research
Debt funds model portfolio

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

Exhibit 31: Debt funds model portfolio

<table>
<thead>
<tr>
<th>Particulars</th>
<th>0 – 6 months</th>
<th>6 months - 1 Year</th>
<th>Above 1 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective</td>
<td>Liquidity</td>
<td>Liquidity</td>
<td>Above FD</td>
</tr>
<tr>
<td>Review Interval</td>
<td>Monthly</td>
<td>Monthly</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Risk Return</td>
<td>Very Low Risk - Nominal Return</td>
<td>Medium Risk - Medium Return</td>
<td>Low Risk - High Return</td>
</tr>
<tr>
<td>Funds Allocation</td>
<td>% Allocation</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Ultra Short term Funds</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Birla SL Savings Fund</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICICI Pru Flexible Income Plan</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Short Term Debt Funds</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Birla Sunlife Short Term Fund</td>
<td>20 20 20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Birla Sunlife Short Term Opportunites Fund</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliance Regular Savings Fund</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HDFC Short Term Opportunities Fund</td>
<td>20 20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICICI Prudential Regular Savings</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICICI Prudential Short Term Fund</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IDFC SSI Short Term</td>
<td>20 20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UTI Short Term Income Fund</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HDFC Corporate Debt opportunities fund</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100 100 100</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: ICICIdirect.com Research

Exhibit 32: Model portfolio performance: One year performance (as on July 31, 2016)

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>Index</th>
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</thead>
<tbody>
<tr>
<td>8.48</td>
<td>7.63</td>
</tr>
<tr>
<td>8.60</td>
<td>8.59</td>
</tr>
<tr>
<td>8.52</td>
<td>9.76</td>
</tr>
</tbody>
</table>

Source: Crisil Fund Analyser, ICICIdirect.com Research

*Index: 0-6 month’s portfolio – Crisil Liquid Fund Index; 6 months-1 year – Crisil Short term Index Above 1 year: Crisil Composite Bond Index
## Exhibit 33: Category wise top picks

<table>
<thead>
<tr>
<th>Category</th>
<th>Top Picks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equity</strong></td>
<td></td>
</tr>
<tr>
<td>Largecaps</td>
<td>Birla Sunlife Frontline equity Fund</td>
</tr>
<tr>
<td></td>
<td>ICICI Pru Focussed Bluechip Equity Fund</td>
</tr>
<tr>
<td></td>
<td>SBI Bluechip Fund</td>
</tr>
<tr>
<td>Midcaps</td>
<td>HDFC Midcap Opportunities Fund</td>
</tr>
<tr>
<td></td>
<td>Franklin India Smaller Companies Fund</td>
</tr>
<tr>
<td></td>
<td>SBI Magnum Global Fund</td>
</tr>
<tr>
<td>Diversified</td>
<td>Franklin India Prima Plus</td>
</tr>
<tr>
<td></td>
<td>Reliance Equity Opportunities</td>
</tr>
<tr>
<td></td>
<td>ICICI Prudential Value Discovery Fund</td>
</tr>
<tr>
<td>ELSS</td>
<td>Axis Long Term Equity</td>
</tr>
<tr>
<td></td>
<td>ICICI Prudential Tax Plan</td>
</tr>
<tr>
<td></td>
<td>Franklin India Tax shield</td>
</tr>
<tr>
<td><strong>Debt</strong></td>
<td></td>
</tr>
<tr>
<td>Liquid Funds</td>
<td>HDFC Cash Mgmnt Saving Plan</td>
</tr>
<tr>
<td></td>
<td>ICIC Pru Liquid Plan</td>
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<tr>
<td></td>
<td>Reliance Liquid Treasury Plan</td>
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<tr>
<td>Ultra Short Term</td>
<td>Birla Sunlife Savings Fund</td>
</tr>
<tr>
<td></td>
<td>Reliance Medium Term Fund</td>
</tr>
<tr>
<td></td>
<td>ICICI Pru Flexible Income Plan</td>
</tr>
<tr>
<td>Short Term</td>
<td>Birla Sunlife Short Term Fund</td>
</tr>
<tr>
<td></td>
<td>HDFC Short Term Opportunities Fund</td>
</tr>
<tr>
<td></td>
<td>ICICI Pru Short Term Plan</td>
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<tr>
<td>Credit Opportunities Fund</td>
<td>Birla Sunlife Short Term Opportunities Plan</td>
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<td></td>
<td>Reliance Regular Savings Fund</td>
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<td>ICICI Prudential Regular Savings</td>
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<tr>
<td>Income Funds</td>
<td>ICICI PrudentialIncome Fund</td>
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<tr>
<td></td>
<td>Birla Sun Life Income Plus - Regular Plan</td>
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<tr>
<td></td>
<td>UTI Bond Fund</td>
</tr>
<tr>
<td>Gilts Funds</td>
<td>ICICI Pru Gilt Inv. PF Plan</td>
</tr>
<tr>
<td></td>
<td>Birla Sunlife Constant Maturity 10 year gilt plan</td>
</tr>
<tr>
<td>MIP</td>
<td>Birla Sunlife Savings 5</td>
</tr>
<tr>
<td>Aggressive</td>
<td>ICICI Prudential MIP 25</td>
</tr>
<tr>
<td></td>
<td>DSP Blackrock MIP</td>
</tr>
</tbody>
</table>

(Refer [www.icidirect.com](http://www.icidirect.com) for details of the fund)
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