mutual
gains

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Sharekhan's top equity fund picks

After comfortably sailing over the hump of 5400 level on the Nifty, the Indian markets have faltered and have not gone anywhere in the past few weeks. It's as if the benchmark indices have gone into a slumber, showing an undecided kind of sideways movement in a very narrow range. Clearly, the Bulls and Bears are at loggerheads.

The bulls are trying to break through on the upside on the back of the bullish undertone in the global equity markets (driven by impressive corporate results), the strong revival in the monsoon (making up for the double-digit deficit in the first few weeks of the current season) and the continued foreign inflows into the Indian markets. On the other hand, the bears are undoing the hard work and limiting any upside in the markets. The bears point to the deterioration of economic data (be it consumer confidence or unemployment data or the PMI reading) in the developed countries. Apart from this, the bears also got a boost from the uninspiring Q1FY2011 results of the Indian companies.

With the Q1 results falling short of expectations, the lull in the earnings upgrade cycle is going to continue. In fact, the disappointing results from some of the key sectors like automobiles (Maruti Suzuki, Hero Honda Motors), capital goods & engineering (Larsen & Toubro, National Thermal Power Corporation) and cement (ACC, Ambuja Cements) have led to about 2-3% downgrade in the FY2011 earnings estimates for the Sensex companies. In terms of the broader market also, the earnings revision has been affected due to global uncertainties and visible signs of margin pressure resulting from the firming up of raw material prices (especially in the engineering, infrastructure and auto ancillary industries).

In terms of policy action, the Reserve Bank of India (RBI) announced a hike of 25 basis points in the repo rate and that of 50 basis points in the reverse repo rate while keeping the cash reserve ratio untouched. The central bank expressed concerns over the stubbornly high inflation levels but maintained its overall pro-growth stance of calibrated hikes in interest rates. Moreover, the RBI has revised the gross domestic product growth estimate for FY2011 to 8.5% from 8% estimated earlier on the back of robust Index of Industrial Production numbers and improvement in the business environment.

Though the equity investors at large continue to remain cautious, the encouraging response to some of the recent public issues is heartening and points towards gradual building up of confidence. The recent initial public offering of SKS Microfinance and the follow-on public offer of Engineers India were both oversubscribed and the primary market is a beehive of activity again.

Thus, global concerns are vying with the positive developments at home for the market's attention and this tussle could keep the markets volatile and bound in a range in the days ahead.

We have identified the best equity-oriented schemes available in the market today based on the following 5 parameters: the past performance as indicated by the one, two and three year returns, the Sharpe ratio and Information ratio.

Sharpe indicates risk-adjusted returns, giving the returns earned in excess of the risk-free rate for each unit of the risk taken. The Sharpe ratio is also indicative of the consistency of the returns as it takes into account the volatility in the returns as measured by the standard deviation.

Information Ratio is one of the most important tools in active fund management. It is the ratio of active return (the return over the index return) to active risk annualized. A higher Information Ratio indicates better fund manger.

We have selected the schemes upon ranking on each of the above 5 parameters and then calculated the maximum value of each of the 5 parameters. Thereafter, we have calculated the percentage underperformance or over performance of each scheme (relative performance) in each of the 5 parameters vis a vis maximum value among them.

For our final selection of schemes, we have generated a total score for each scheme giving 60% weightage each to the relative performance as indicated by the one, two and three year returns, 20% weightage to the relative performance as indicated by the Sharpe ratio and the remaining 20% to the relative performance as indicated by the Information ratio of the scheme.

All the returns stated below, for less than one year are absolute and for more than one year the returns are compunded annualised.

All the returns stated on next page, for less than one year are absolute and for more than one year, the returns are annualised.

Conservative/ Large-cap funds

Scheme Name	NAV	Returns as on Jul 31, 10 (%)		
		3 Months	1 Year	2 Years
Birla Sun Life Frontline	84.70	2.53	25.08	23.26
Principal Large Cap	27.50	4.17	27.46	24.51
Tata Pure Equity	98.03	5.56	27.70	20.71
DSP BlackRock Top 100	94.09	2.08	19.06	19.08
Franklin India Bluechip	201.54	3.14	25.17	23.07
Indices				
BSE Sensex	17868.29	1.76	14.07	11.58

Aggressive Funds

Mid-cap Category

Scheme Name	NAV	Returns as on Jul 31, 10 (%)		
		3 Months	1 Year	2 Years
IDFC Premier Equity	31.92	9.21	48.85	31.23
HDFC Mid-Cap Opp	14.74	7.83	50.33	29.87
Sundaram BNP Paribas Select Midcap	147.51	6.25	39.41	27.09
Birla Sun Life Mid Cap Fund - Plan A	111.45	2.04	36.45	27.47
UTI Thematic Mid Cap	32.22	5.78	52.44	24.32
Indices				
BSE MID CAP	7407.91	3.11	33.08	15.37

Multi-cap Category

Scheme Name	NAV	Returns as on Jul 31, 10 (%)		
		3 Months	1 Year	2 Years
Reliance RSF	30.32	3.28	31.27	24.68
Tata Capital Builder	15.40	4.20	33.68	15.13
HDFC Equity	262.84	7.50	40.22	31.67
HDFC Top 200	199.28	6.06	27.33	26.86
Reliance Equity Opp	34.42	6.87	55.65	32.28
Indices				
BSE 500	7205.22	2.31	21.36	14.21

Thematic/Emerging trend funds

Scheme Name	NAV	Returns as on Jul 31, 10 (%)		
		3 Months	1 Year	2 Years
ICICI Prudential Infra	29.91	0.98	16.61	10.44
Canara Robeco Infra	22.39	1.82	19.60	17.88
SBI Magnum COMMA	24.03	-0.95	22.55	11.60
Birla Sun Life India GenNext	23.22	7.55	32.49	21.34
Fidelity India Special Situations	18.01	5.29	31.97	21.00
Indices				
BSE Sensex	17868.29	1.76	14.07	11.58

Balanced funds

Scheme Name	NAV	Returns as on Jul 31, 10 (%)		
		3 Months	1 Year	2 Years
Reliance RSF -Balanced	21.81	3.38	27.28	29.36
HDFC Prudence	202.38	7.39	39.20	32.12
HDFC Balanced	52.07	7.56	36.66	25.21
Tata Balanced	79.97	3.41	27.34	21.40
Birla Sun Life 95	299.71	5.11	26.69	26.94
Indices				
Crisil Balanced Fund Index	3357.88	1.51	12.18	11.91

Tax planning funds

Scheme Name	NAV	Returns as on Jul 31, 10 (%)		
		3 Months	1 Year	2 Years
Religare Tax Plan	16.98	5.07	34.23	27.94
ICICI Prudential Taxplan	135.57	3.62	43.22	24.52
Fidelity Tax Advantage	21.17	8.11	37.49	25.97
HDFC Taxsaver	223.30	6.74	38.02	28.20
DSP BlackRock Tax Saver	17.04	5.27	34.90	20.36
Indices				
CNX500	4475.15	2.45	18.95	13.80

Risk-return analysis

The charts on the following pages give you a snapshot of how the mutual funds have performed on the risk-return parameters in the past. We have used the bubble analysis method to measure their performances on three parameters viz risk, return and fund size. The risk is measured by standard deviation, which measures the average deviation of the returns generated by a scheme from its mean returns. We have tried to explain the same with the help of a diagram, which is divided into four quadrants, with each quadrant containing funds of a particular risk-return profile. The size of the bubble indicates the size of the fund.

The funds in the **high-risk high returns** quadrant follow a very aggressive approach and deliver high absolute returns compared to its peers albeit at a higher risk.

The funds in the **low-risk high returns** quadrant outperform the peer group on the risk-adjusted returns basis as they deliver higher returns compared to its peers without exposing the portfolio to very high risk.

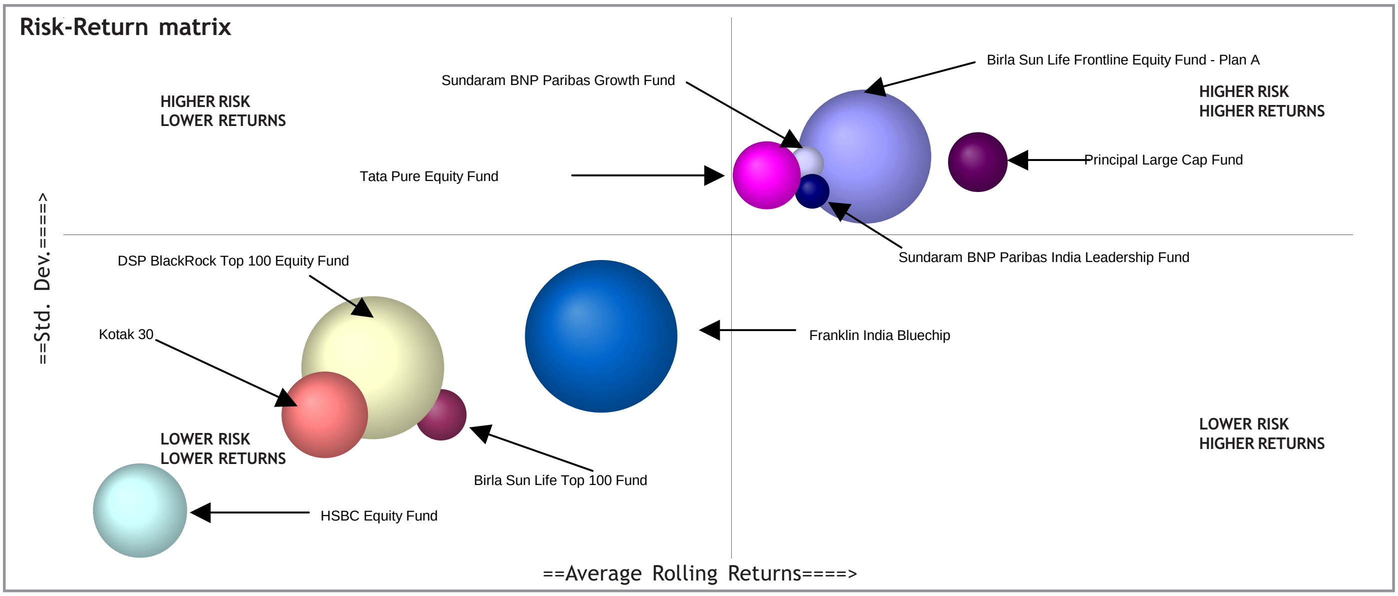
The funds in the **low-risk low returns** quadrant are not very aggressive and provide lower absolute returns, taking lower risks.

The funds in the **high-risk low returns** quadrant underperform the peers on the risk adjusted returns basis as they adopt a high-risk strategy but the returns fail to compensate the risk taken by the fund.

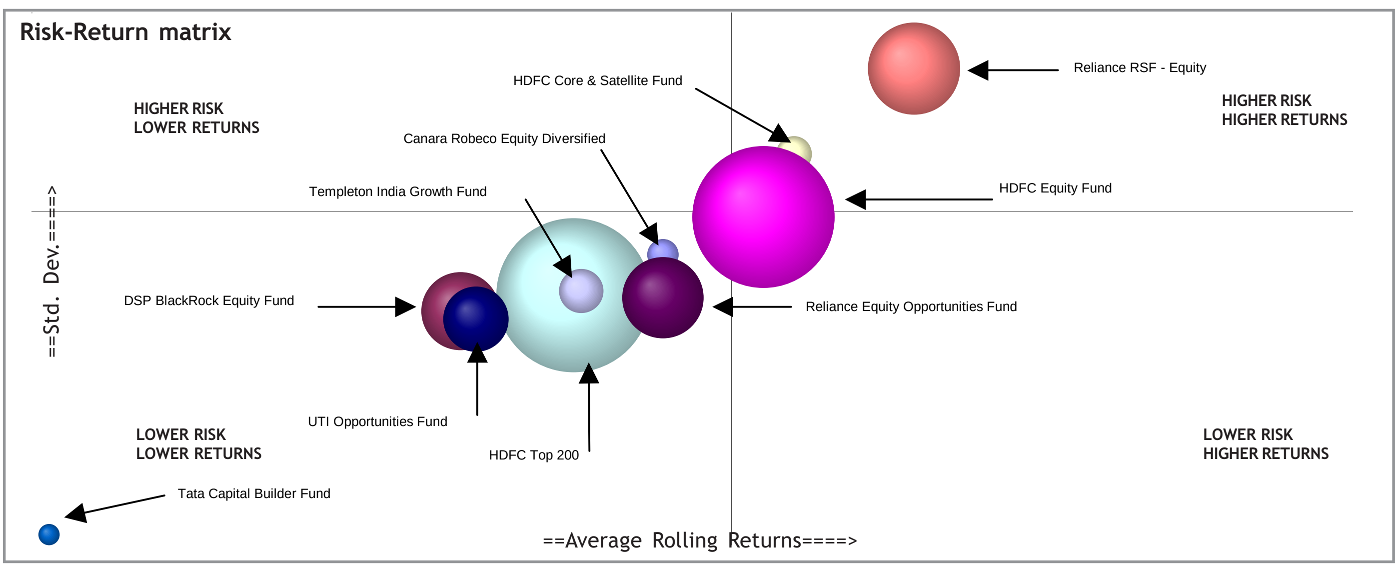
For all schemes, risk is measured in terms of two years' volatility, while returns are measured as two years monthly rolling returns as on July 31, 2010.

Every individual has a different investment requirement, which depends on his financial goals and risk-taking capacities. We at Sharekhan first understand the individual's investment objectives and risk-taking capacity, and then recommend a suitable portfolio. So, we suggest that you get in touch with our Mutual Fund Advisor before investing in the best funds.

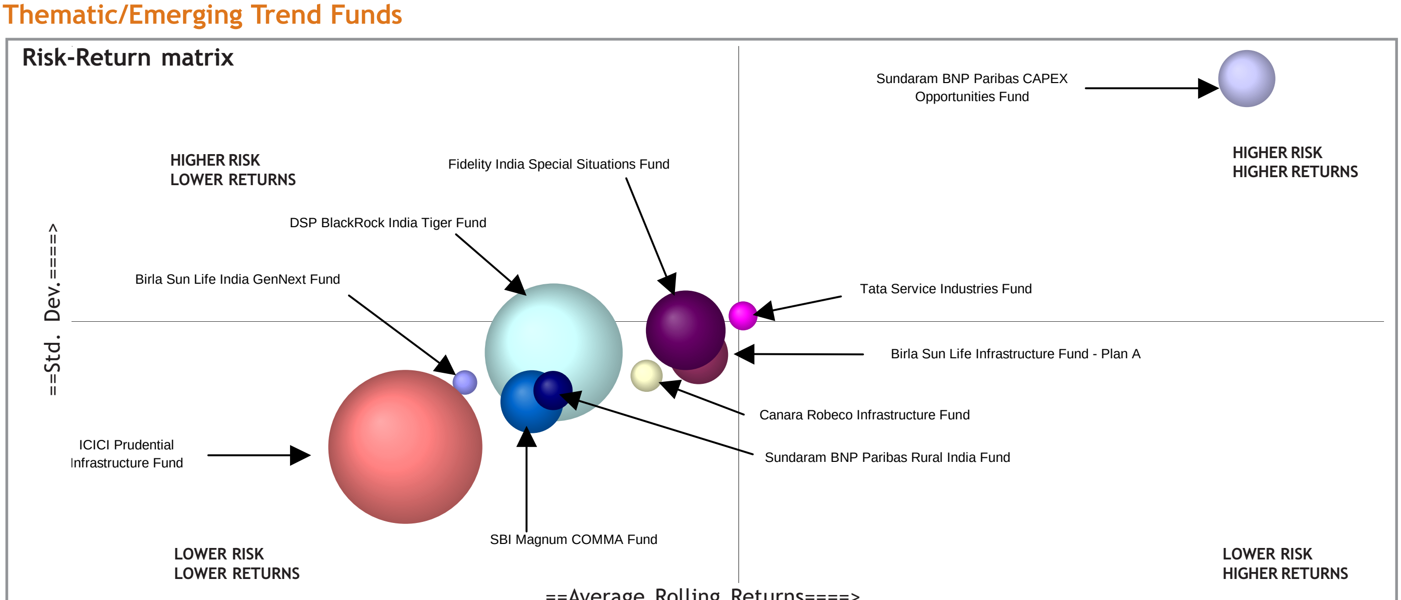
Equity Diversified/Conservative Funds



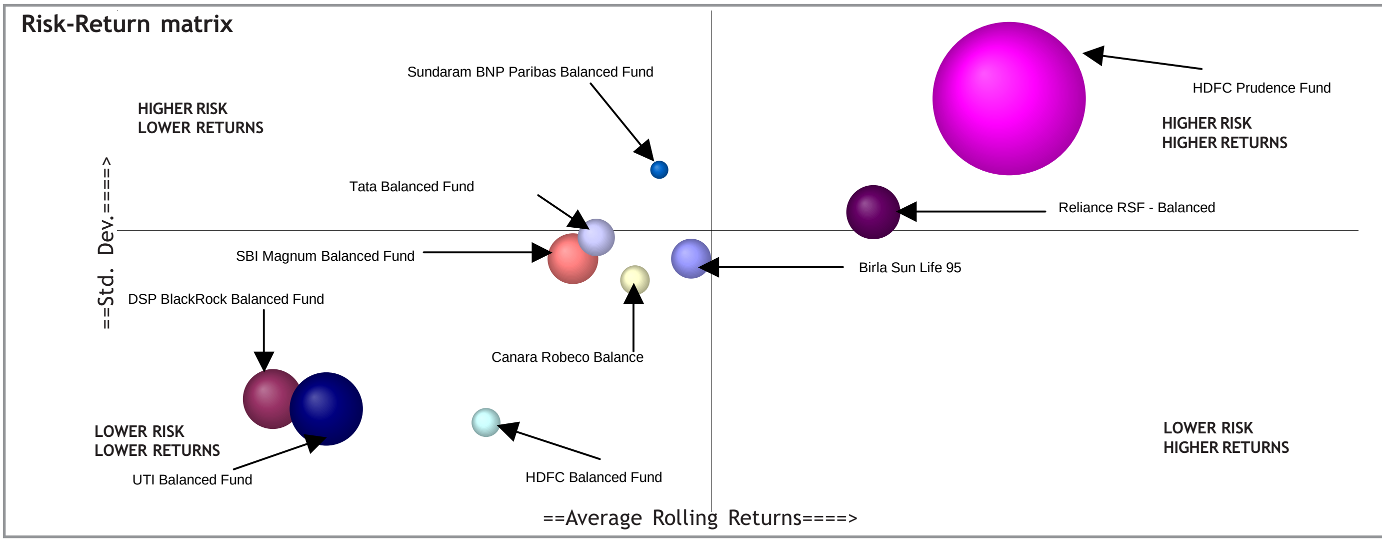
Multicap Funds



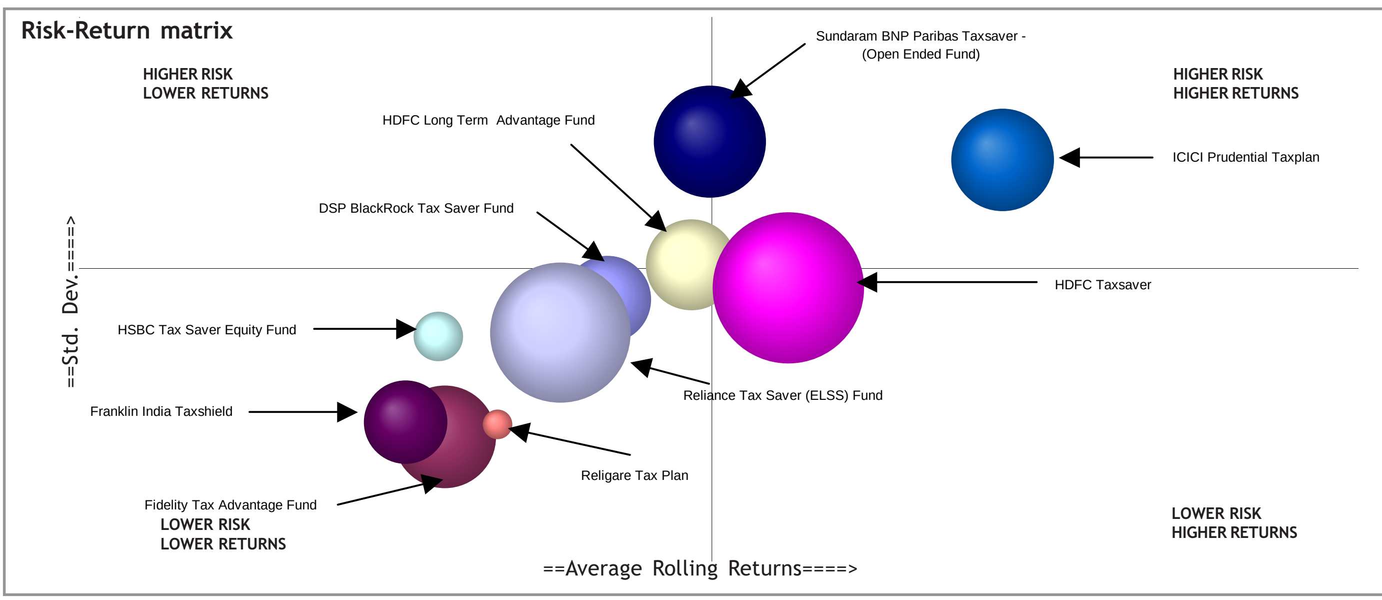
Thematic/Emerging Trend Funds



Balanced Funds



Tax Planning Funds



Disclaimer: Mutual fund investments are subject to market risk. Please read the offer document carefully before investing. Past performance may or may not be sustained in the future.