



Weak global sentiment weighs on equity AUMs

Industry news

- ◆ **Budget raises dividend distribution tax and permits delivery-based short selling:** The Union Budget has hiked the rate of the dividend distribution tax (DDT) to 25% on money market mutual funds and liquid funds for all categories of investors. The enhanced rate of distribution tax has apparently been introduced to cut the arbitrage opportunity between income tax rates and distribution tax rates. Further, the finance minister has permitted delivery-based short selling by institutions and also allowed borrowing and lending of securities to facilitate delivery by institutions.
- ◆ **Prudential ICICI replaces Reliance as top MF:** Prudential ICICI Mutual Fund has replaced Reliance Mutual Fund as the mutual fund with the largest assets under management (AUM) at Rs43,281 crore for February. Prudential ICICI Mutual Fund assets gained 24.56% to replace Reliance Mutual Fund that saw its assets increase by 8.17% at Rs42,210 crore.
- ◆ **UTI AMC launches Gold ETF:** India's mutual fund behemoth, UTI Mutual Fund has launched the UTI Gold Exchange Traded Fund (ETF). The new fund offer (NFO) closed on March 12 and the fund would be listed on the National Stock Exchange (NSE). The traded prices of ETF units on the stock exchange reflect the value per unit of the underlying assets of the fund. They enable investors to gain exposure to indices or the underlying asset at a lower cost than any other form of investing.
- ◆ **PAN to replace MIN starting March 2:** Permanent account number (PAN) has replaced the Mutual Fund Identification Number (MIN) starting March 2. The announcement came just a day after finance minister P Chidambaram said in his Budget speech that the PAN will become the sole identification number for all transactions in the securities market. The only addition to the PAN would be an alphanumeric prefix or suffix to distinguish different kinds of investments such as mutual funds, equity, debt and derivatives.
- ◆ **JM Mutual Fund to up assets to \$5 billion:** JM Mutual Fund is expanding the asset management business in an attempt to increase its asset base to about \$5 billion from about \$850 million now. The fund has hired Sandeep Sabharwal, the erstwhile star fund manager at SBI Mutual as the chief investment officer, while Nityanath Ghanekar (previously at Ernst & Young) has been appointed as the MD and CEO.

Highlights

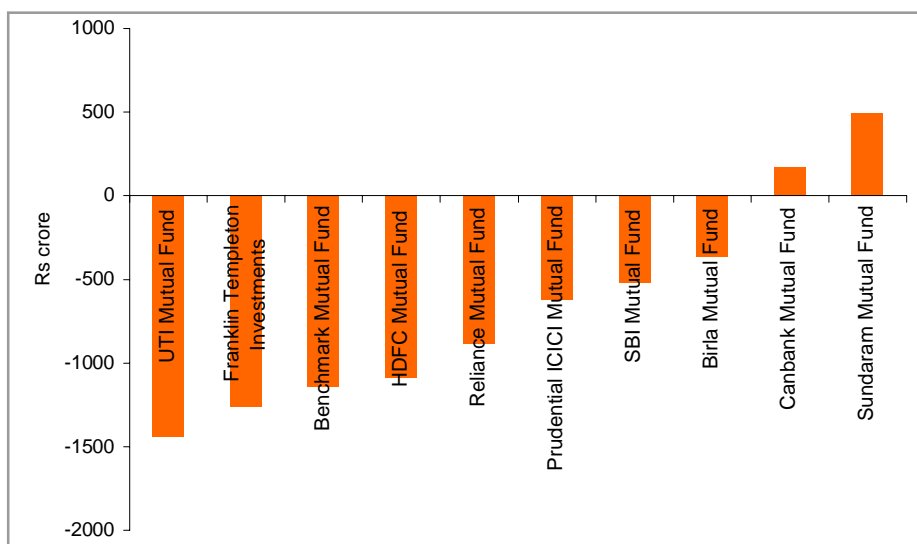
- ◆ The AUM for equity funds declined by 6.4% to Rs137,412 crore in February 2007. The fall in the AUM was largely due to the market meltdown seen towards the end of the month.
- ◆ Fund managers made purchases worth Rs12,967 crore and remained net sellers to the tune of Rs274 crore during the month.
- ◆ Net inflows into equity mutual funds (MFs) almost doubled to Rs2,612 crore in February 2007. The relatively higher amounts mobilised by existing schemes coupled with the lower redemption volumes increased the fund flows in February 2007.
- ◆ MFs are sitting on Rs12,084 crore of cash, waiting to be deployed in the market. Of this, Rs11,013 crore of cash lies with the existing MFs, while the remaining Rs1,071 crore were mobilised through NFOs.
- ◆ Amongst the major sector funds, FMCG funds generated the highest returns in February 2007.
- ◆ MFs have slashed their exposure to housing & construction, diversified and cement companies, and have bought stocks in the banking, media & entertainment and technology sectors.

♦ Major movers for February 2007

The AUM of equity MFs declined by 6.4% from Rs146,749 crore in January 2007 to Rs137,412 crore in February 2007. The decline in the equity AUM was largely due to the market meltdown seen towards the end of the month. The AUM for the equity-diversified funds fell by 6.2%, whereas that of the tax planning and sector funds declined by 1.9% and 5.3% respectively. The index funds saw a massive decline of 18.5% in their AUM.

UTI MF saw the largest decline of Rs1,437 crore in its AUM. Franklin Templeton MF and Benchmark MF followed UTI MF and recorded reductions of Rs1,265 crore and Rs1,146 crore respectively in their equity AUM.

On the other hand, Sundaram MF and Can Bank MF reported increases in their AUM. Sundaram MF's AUM rose despite the decline in the equity markets on account of the addition of funds from its recently closed NFOs—Sundaram Equity Multiplier Fund and Sundaram Select Smallcap Fund. The AUM of Can Bank MF also received a boost due to the collections from the Can Multicap NFO, which closed during February 2007.



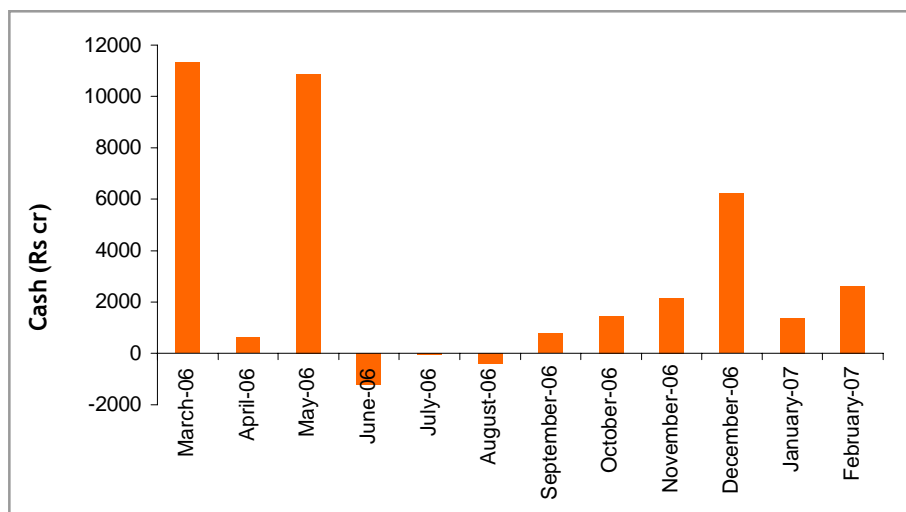
♦ Stock market activities for mutual funds

Mutual funds turned net sellers of equities in February 2007.

Month	Purchase (Rs cr)	Sales (Rs cr)	Net (Rs cr)
Feb-07	12697.09	12971.14	-274.05

Equity fund flow

Fund flows into the equity MFs almost doubled in February 2007, with the equity MFs registering a net inflow of Rs2,612 crore in February 2007 as compared with Rs1,361 crore in January 2007. The decline in the fund flows in January 2007 as compared with December 2006 is mainly attributed to the higher amounts flowing into existing equity schemes (Rs7,918 crore in February 2007 compared with Rs6,274 crore in January 2007) and the relatively lower volume of redemptions. The net fund flows were higher despite the relatively lower NFO collections, which stood at Rs1,071 in February 2007 as compared with Rs2,110 in January 2007.



The NFO collections include the amounts raised by Can Multicap Fund, Sundaram Equity Multiplier Fund and Sundaram Select Small Cap Fund. The same, however, do not include the collections made by Standard Chartered Tax saver Fund, Principal Long Term Equity Fund and HSBC Unique Opportunities Fund. These funds were launched in February 2007 but did not close in the month, as the allotment of the units for these funds has not been completed. The collections made by these funds (approximately Rs800 crore) will be reflected in the next month's fund flow figures.

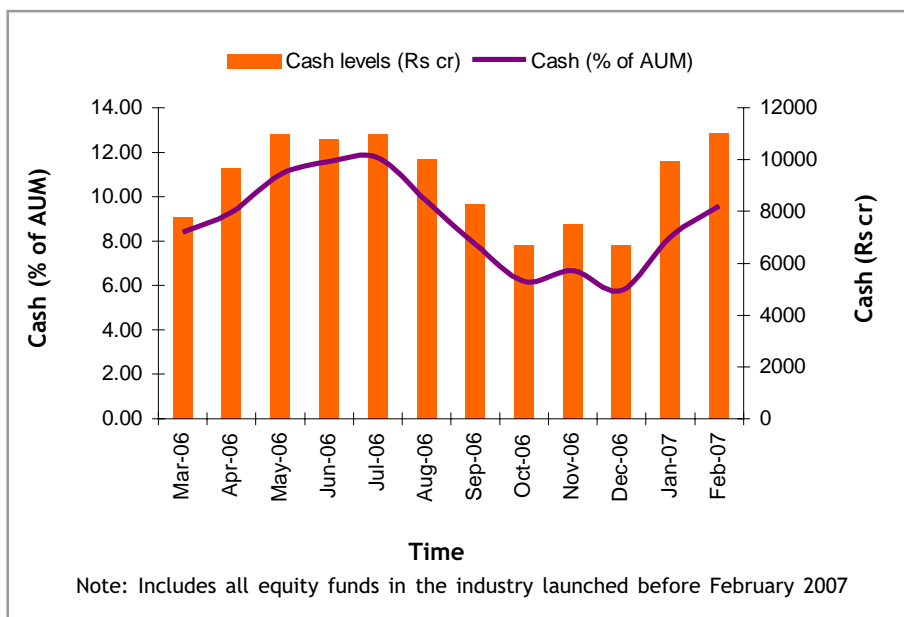
Cash levels

Liquidity

The absolute cash levels for all equity funds launched before February 2007 increased from Rs9,957 crore in January 2007 to Rs11,013 crore in February 2007. The cash as a percentage of the total corpus also followed a similar trend, increasing from 8.2% of the total corpus in January 2007 to 9.6% in February 2007. The increase in the cash levels has been largely due to profit booking in a rallying market.

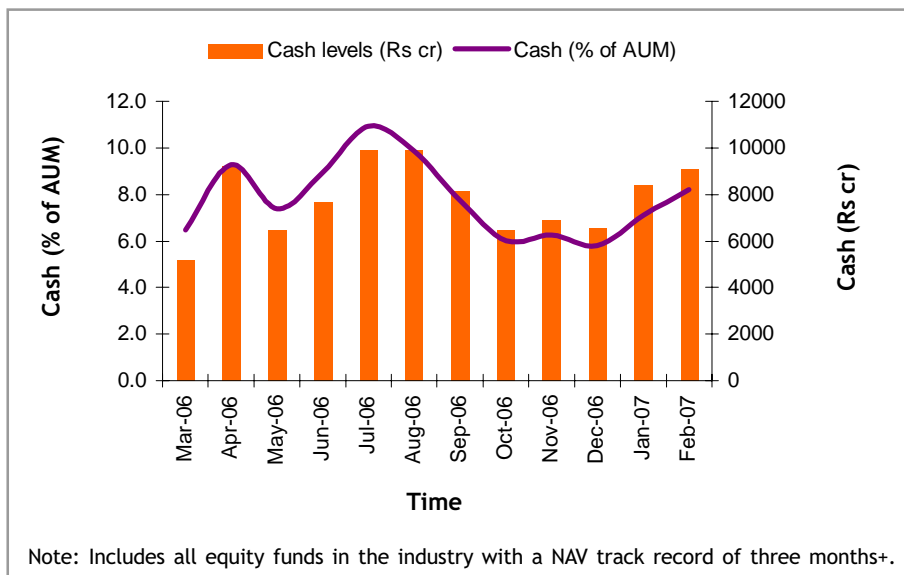
The total cash sitting with MFs, including the cash mobilised through the recently launched NFOs, however, stands at a healthy Rs12,084 crore. Flush with cash, MFs are well placed to maintain the buying interest and propel the market forward.

The increase in the cash levels indicates that mutual funds may be expecting a short-term correction in the market. However taking into consideration the fact that the India growth story still remains intact, it is likely that funds are holding cash more to counter redemption requests, with investors wanting to book profits in present times, where global sentiment seems to be weak.



Sentiments

MFs have continued being in a passive investment mode seen in January 2007, with cash levels rising from 7.1% of the total corpus in January 2007 to 8.2% of the total corpus in February 2007. However, with the prospects for the Indian market yet remaining strong, funds may be holding more amounts of cash to avail of value opportunities available in the market, in the wake of the recent market meltdown.



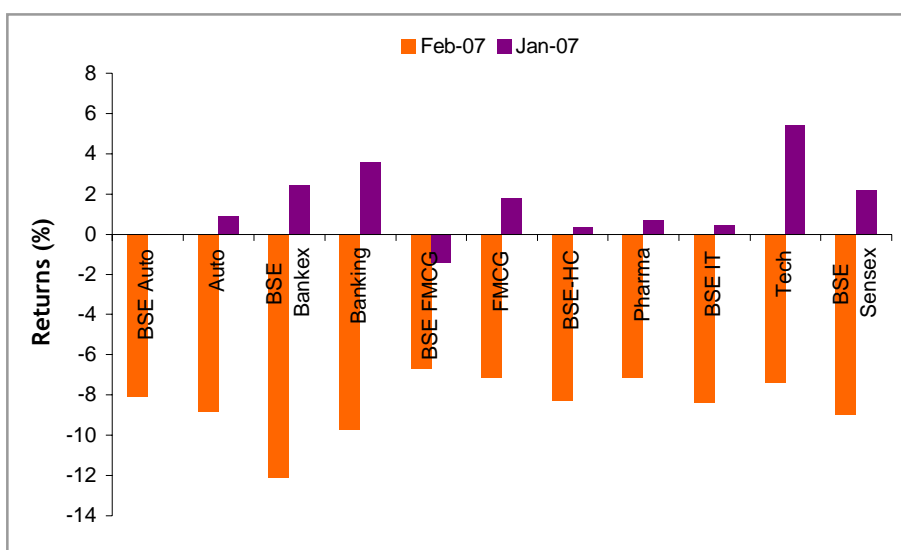
Sector allocation

Major shifts in the sector allocation for the equity-diversified category are as under:

Sector name	February 2007		January 2007		% chg
	Amount (Rs cr)	% of net assets	Amount (Rs cr)	% of net assets	
Increase in exposure					
Miscellaneous	4760.64	5.50	4093.02	4.35	1.15
Banks	6897.54	7.96	6661.32	7.07	0.89
Computers - software & education	9869.33	11.39	10105.49	10.73	0.66
Entertainment	2644.02	3.05	2510.04	2.67	0.39
Power generation, transmission & equip	2518.84	2.91	2374.75	2.52	0.39
Electronics	1865.53	2.15	1725.97	1.83	0.32
Decrease in exposure					
Housing & construction	3429.44	3.96	5301.05	5.63	-1.67
Diversified	10393.40	12.00	12402.43	13.17	-1.17
Cement	1673.79	1.93	2483.88	2.64	-0.71
Metals	512.49	0.59	980.37	1.04	-0.45
Oil & gas, petroleum & refinery	3225.29	3.72	3883.02	4.12	-0.40
Hotels & resorts	681.59	0.79	866.96	0.92	-0.13

Performance of sector funds

All fund categories generated negative returns in February 2007, in line with the steep fall in the equity markets. Except for banking funds, all fund categories outperformed the Sensex, which fell sharply by 8.9% in February 2007. Additionally, funds in the banking, pharma and technology sectors outperformed their respective benchmark indices (the BSE Bankex, the BSE Healthcare Index and the BSE IT Index respectively) whereas the funds in the auto and FMCG sectors underperformed the BSE Auto Index and the BSE FMCG Index respectively in February 2007. FMCG funds gave the highest returns in February 2007, followed by pharma and technology funds.



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