



## Positive market sentiment boosts mutual funds' AUM

### Industry news

- ♦ **Industry assets under management (AUM) cross Rs300,000 crore for the first time:** The total assets under management of the mutual fund industry rose by 8.9% from Rs287,088 crore to Rs307,106 crore. In an interesting trend UTI Mutual Fund (MF) regained the top slot in its asset tally after three months, pushing Prudential ICICI MF to the second spot. UTI MF reported the highest increase in its corpus by Rs4,069 crore in absolute terms followed by Prudential ICICI MF at Rs2,687 crore. HSBC MF was the biggest loser in absolute terms and lost Rs528 crore. However in percentage terms Sahara Mutual witnessed an increase of 40% in its corpus from Rs175 crore in the month of July while the assets under management of BOB MF saw a decline of 14% compared to the previous month.
- ♦ **Sandeep Sabharwal, CIO Lotus MF quits:** Temasek's launch party for its mutual fund, Lotus Asset Management may have just turned sour. In an unexpected move the fund's CIO Equities, Sandeep Sabharwal has put in his papers. Personal reasons have been attributed for his resignation. According to distributors, who were in talks with Lotus Mutual Fund about the fund's equity launch, this will have a dampening impact on the fund's launch as Lotus Mutual Fund was going to launch an equity fund that was its Contra Fund. This fund is still awaiting the securities and exchange board of India (SEBI) approval though the road shows seem to have begun.
- ♦ **Reliance Equity, Reliance Growth resume sale:** Reliance Mutual Fund has withdrawn the restriction on subscription to Reliance Equity Fund and Reliance Growth Fund with effect from August 18, 2006. All fresh as well as additional subscriptions (including subscriptions through the Systematic Investment Plan) for any amount would now be allowed in both the schemes. Earlier, the trustee of Reliance Mutual Fund had withdrawn the sale of units for subscriptions of above Rs5 lakh in Reliance Growth Fund and Reliance Equity Fund with effect from May 3, 2006, and April 15, 2006, respectively. This upper limit in Reliance Growth was subsequently increased to Rs1 crore, with effect from August 2, 2006.
- ♦ **Vinay Kulkarni joins Tata Mutual Fund:** Vinay Kulkarni has joined Tata Mutual Fund as a Senior Fund Manager. He would be managing Tata Equity Opportunities Fund, Tata Contra Fund, Tata Mid Cap Fund, Tata Monthly Income Fund and Tata MIP Plus Fund, with effect from August 18, 2006. M Venugopal earlier managed these schemes. Prior to this assignment, Vinay Kulkarni was a fund manager at Deutsche Mutual Fund.
- ♦ **New fund offers will now come with a higher filing fee:** The SEBI has hiked the filing fees for a new fund offer document by a mutual fund, from the existing Rs25,000 to 0.03% of the amount raised in the new fund offer, subject to a minimum of Rs1 lakh. The MFs will have to pay the minimum fee while filing the offer document and pay the balance within such time as may be specified by the board. According to industry watchers, the increase in the fees is not huge enough to deter fund houses from launching new offers.

### Highlights

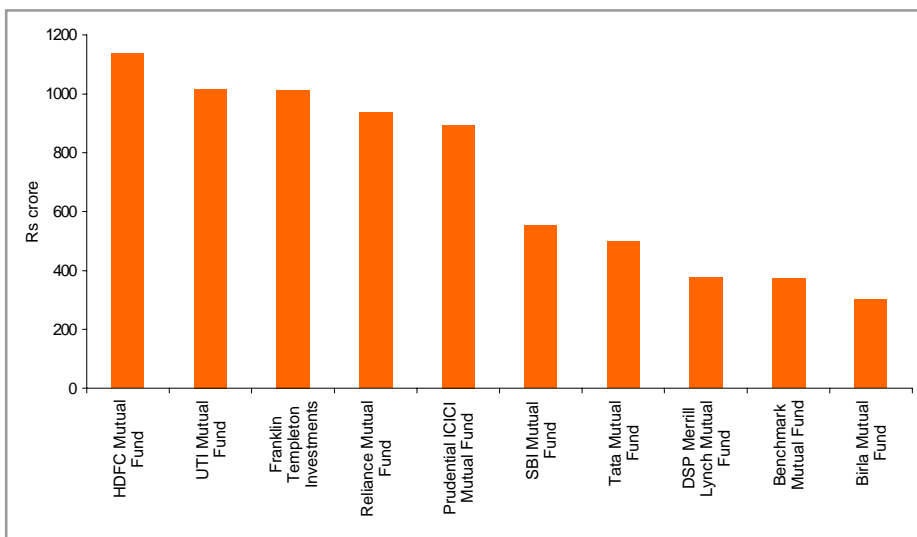
- ♦ The AUM for equity funds increased by 7.6% to Rs114,215 crore in August 2006. The rise was in line with the general upward movement seen in the equity markets.
- ♦ Fund managers made purchases worth Rs8,852 crore and turned net buyers for the first time since May 2006. They bought equities to the tune of Rs426 crore during the month.
- ♦ Equity mutual funds registered a net outflow of Rs427 crore. The outflow was higher as compared to the previous month on account of a higher volume of redemptions and an absence of collections made by new fund offerings (NFOs).
- ♦ The domestic equity-oriented mutual funds are sitting on a comfortable kitty of cash of Rs10,002 crore, which will be deployed in the markets in the coming months.
- ♦ The improving market sentiment has prompted mutual funds to revert to a strong investment mode by decreasing their cash holdings.
- ♦ Mutual funds have slashed their exposure to automobile, miscellaneous and electrical & electrical equipment companies, and have bought stocks in the banking, oil & gas and shipping sectors.

For Private Circulation only

♦ Major movers for August 2006

The AUM of equity mutual funds increased by 7.6% from Rs106,106 crore in July 2006 to Rs114,215 crore in August 2006. The rise in the AUM was more or less in line with the market trend. The AUM for the equity-diversified funds surged by 8%, whereas that of tax planning and sector funds rose by 8.5% and 4.1% respectively. The Index funds saw a massive increase of 26.6% in their AUM.

HDFC Mutual Fund clocked the highest increase of Rs1,137 crore in its AUM. UTI Mutual Fund and Franklin Templeton Mutual Fund followed JM Financial Mutual Fund and recorded increases of Rs1,017 crore and Rs1,013 crore respectively in their equity AUM. The top loser was Sundaram Mutual Fund, which saw its equity AUM declining by Rs92 crore, followed by Principal Mutual Fund.



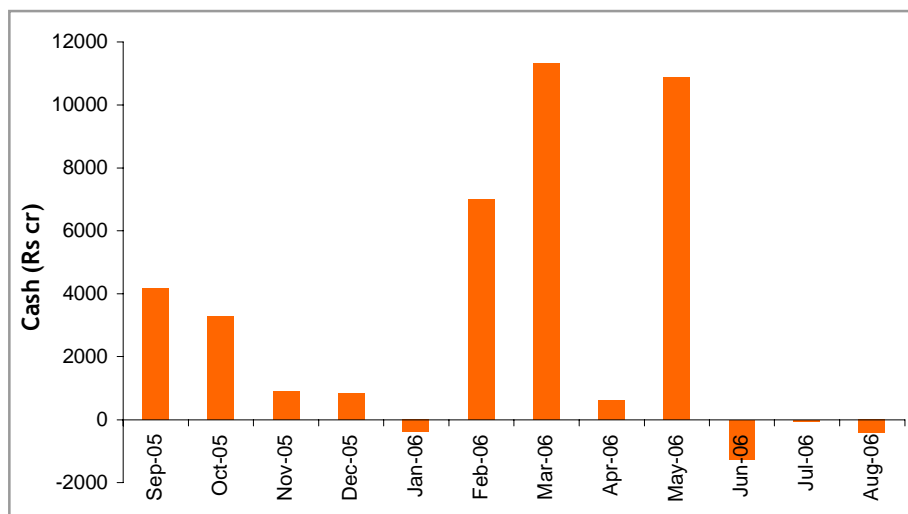
♦ Stock Market Activities for Mutual Funds

Mutual Funds turned net buyers of equities in the month of August 2006.

Month	Purchase (Rs cr)	Sales (Rs cr)	Net (Rs cr)
Aug-06	8851.58	8425.14	426.44

Equity fund flow

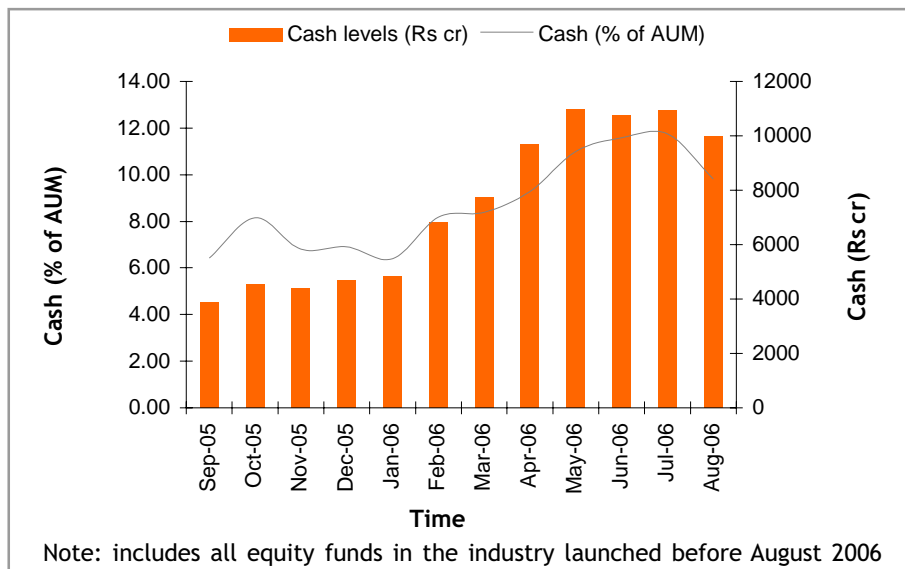
Equity mutual funds registered a net outflow of Rs427 crore in August 2006. The outflow was higher than that of the previous month, primarily on account of higher volumes of redemptions (Rs4,714 crore) as investors booked profits in a rising market scenario. Coupled with this was the absence of collections made by NFOs in the month of August, which further brought down the fund flow figure. The collections made by Tata Capital Builder Fund and ING Vysya C.U.B. Fund have not been included in the August figures as these funds were launched but did not close in August as the allotment of their units have not yet been completed. The collections made by these funds will be reflected in the next month's fund flow figures.



### Cash levels

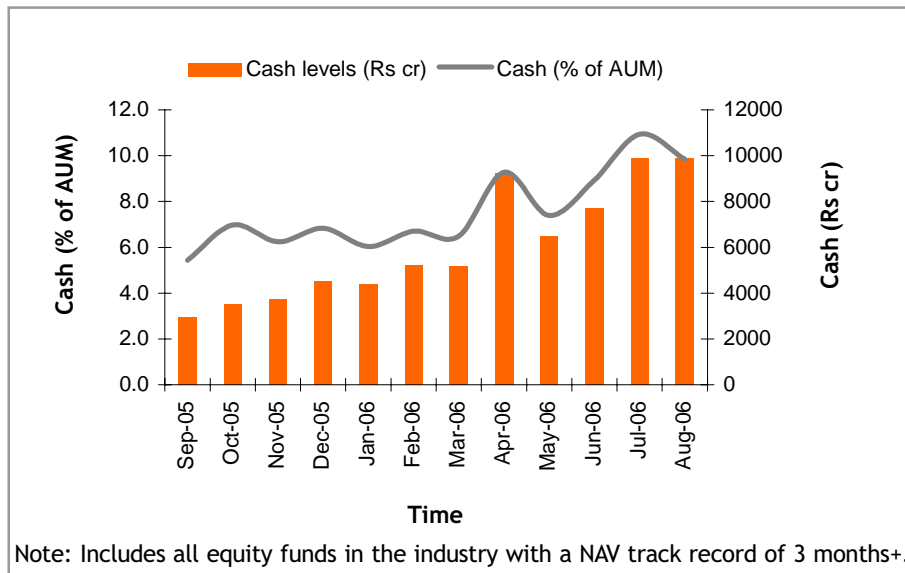
#### Liquidity

The absolute cash levels for all equity funds launched before August 2006 declined from Rs10,957 crore in July 2006 to Rs10,002 crore in August 2006, as mutual funds started deploying their cash aggressively, with the market sentiment improving. The cash as a percentage of the total corpus also followed a similar trend declining to 9.8% of the total corpus in August 2006 from 11.8% in July 2006.



#### Sentiments

With the market sentiment improving and a higher amount of discipline returning to the market, mutual funds have reverted back to being in a strong investment mode. Cash as a percentage of the total corpus (for all funds which are at least 3 months old) declined from 10.9% in July 2006 to 9.8% in August 2006.



## Sector allocation

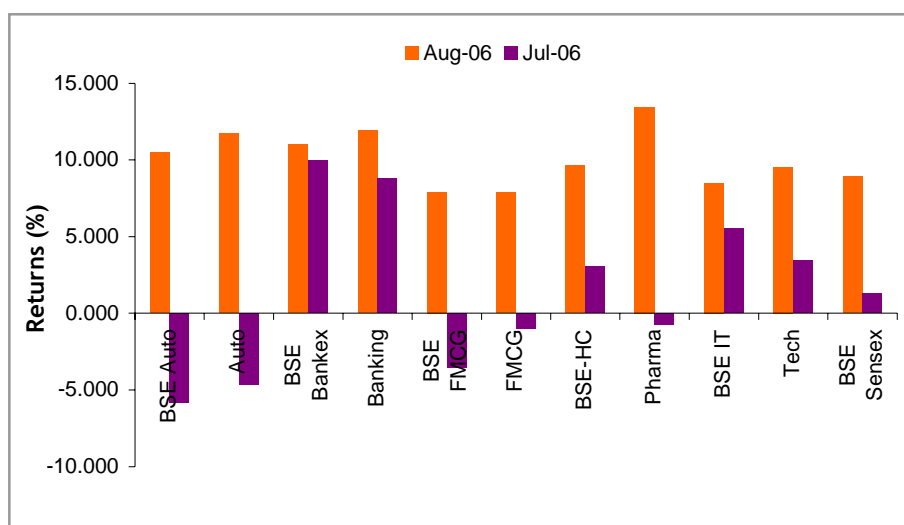
Major shifts in the sector allocation for the equity-diversified category are as under:

Sector name	August 2006		July 2006		% change
	Amount (Rs cr)	% of net assets	Amount (Rs cr)	% of net assets	
<b>Increase in exposure</b>					
Banks	6040.4	7.8	5591.6	7.4	0.4
Oil & gas, petroleum & refinery	3305.1	4.3	2974.8	3.9	0.3
Shipping	594.0	0.8	335.5	0.4	0.3
Diversified	11150.8	14.4	10703.4	14.2	0.3
Telecom	3045.7	3.9	2809.3	3.7	0.2
Pharmaceuticals	3872.3	5.0	3629.3	4.8	0.2
<b>Decrease in exposure</b>					
Miscellaneous	3539.5	4.6	4324.5	5.7	-1.1
Auto & auto ancillaries	6477.3	8.4	6769.4	9.0	-0.6
Electricals & electrical equipments	3122.3	4.0	3241.8	4.3	-0.3
Transport & travel	418.9	0.5	514.5	0.7	-0.1
Sugar	457.3	0.6	528.6	0.7	-0.1
Fertilisers, pesticides & agrochemicals	591.5	0.8	655.6	0.9	-0.1

## Performance of sector funds

In line with the upward movement seen in the equity markets, all fund categories have generated higher returns in August 2006 as compared to the returns clocked in July 2006. Auto, banking, pharma and technology funds have outperformed the Sensex by margins of 3-4%, whereas the fast moving consumer goods (FMCG) funds have underperformed the Sensex. Additionally, funds in the auto, banking, pharma and technology sectors have outperformed their respective benchmark indices (the BSE Auto index, the BSE Bankex, the BSE Healthcare index and the BSE IT index respectively)

whereas the funds in the FMCG sector have marginally underperformed the BSE FMCG index in August 2006. Pharma funds gave the highest returns in August 2006, followed by banking and auto 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.

### Disclaimer

"This document has been prepared by Sharekhan Ltd. This Document is subject to changes without prior notice and is intended only for the person or entity to which it is addressed to and may contain confidential and/or privileged material and is not for any type of circulation. Any review, retransmission, or any other use is prohibited. Kindly note that this document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from publicly available data or other sources believed to be reliable. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. We do not represent that information contained herein is accurate or complete and it should not be relied upon as such. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

SHAREKHAN & affiliates may have used the information set forth herein before publication and may have positions in, may from time to time purchase or sell or may be materially interested in any of the securities mentioned or related securities. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. Any comments or statements made herein are those of the analyst and do not necessarily reflect those of SHAREKHAN."