Positive sentiment bolsters equity AUMs

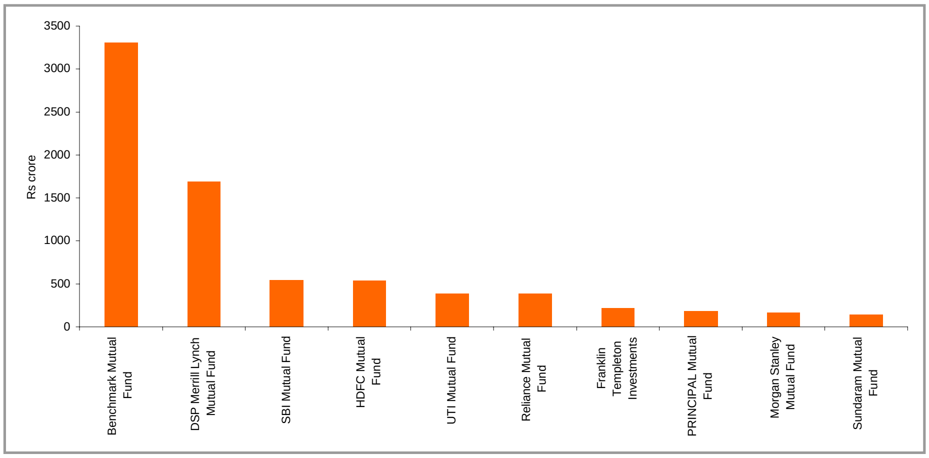
Industry news

- **Aviva quits StanChart Mutual Fund race:** There seems to be a twist in the tale of the ongoing sale of Standard Chartered Bank's local asset management arm. Aviva, the UK's biggest insurance group and the highest bidder for the mutual fund, has walked out of the bidding process. This leaves the door open for Swiss banking major UBS, which was the second-highest bidder.
- **Pioneer MF is back:** Pioneer quit India about four years ago when it sold its mutual fund to Templeton. Now, Pioneer may be making a comeback to India with a big bang! The US-based player is in talks with Bank of Baroda to launch its asset management, private equity and wealth management businesses.
- **R Rajagopal appointed Head - Equities of DBS Chola MF:** DBS Chola Mutual Fund has announced the appointment of R Rajagopal as Head - Equities. Mr Rajagopal will be responsible for managing DBS Chola Equity Funds. He has over 14 years of experience in managing equities.
- **Canara Bank to sell MF arm stake to Robeco:** Canara Bank, planning to sell a stake in its fully owned mutual fund arm in December, is likely to finalise Netherlands-based Robeco for the proposed joint venture. The bank is likely to retain 51% or more stake in its mutual fund arm after the stake sale. Most fund officials feel the deal would be valued at 6-7% of assets under management.
- **Reliance Growth, Reliance Vision top global list:** Reliance Growth and Reliance Vision, two equity funds managed by Reliance Mutual Fund, have been ranked as the top two funds globally, based on their five-year performance track record. The ranking is as per data from the internationally acclaimed Lipper, which benchmarks the top 20 performers from a global universe of open-ended equity funds.
- **Franklin Templeton to acquire 100% stake in its Indian AMC:** Franklin Templeton Investments has agreed in principle to acquire full control of its joint venture in India, subject to regulatory approvals and to execution of a formal agreement. Franklin Templeton will buy out the 25% stake in the asset management company's (AMC’s) total equity paid-up capital held by Hathway Investments, a member of the Rajan Raheja group of companies.

Highlights

- The assets under management (AUM) for equity funds increased by 6.2% to Rs135,851 crore in November 2006. The rise in the equity AUM was higher than the market movement of 5.2%.
- Fund managers made purchases worth Rs12,675 crore and remained net sellers to the tune of Rs25 crore during the month.
- Equity mutual funds registered a net inflow of Rs2,147 crore. Even as the redemption volumes were higher compared to the previous month, the inflows into new and existing schemes were strong enough to counter the higher redemption volumes.
- Mutual funds are sitting on Rs9,158 crore of cash, waiting to deploy the same in the market. Of this, Rs7,487 crore of cash lies with the existing mutual funds, while the remaining Rs1,671 crore has been mobilised through new fund offerings (NFOs).
- Amongst all sector funds, banking funds have generated the highest returns in November 2006. Banking and technology funds have outperformed the Sensex, whereas funds in the auto, fast moving consumer goods (FMCG) and pharmaceutical sectors have underperfomed the Sensex.
- Mutual funds have slashed their exposure to banking, metal and electronics companies, and have bought stocks in the housing & construction, computers and telecom sectors.

- **Major movers for November 2006**



The AUM of equity mutual funds increased by 6.2% from Rs127,943 crore in October 2006 to Rs135,851 crore in November 2006. The rise in the equity AUM was higher than the market movement of 5.2%. The AUM for the equity-diversified funds surged by 3.8%, whereas that of tax planning and sector funds rose by 7.0% and 3.4% respectively. The index funds saw a massive increase of 57.7% in their AUM.

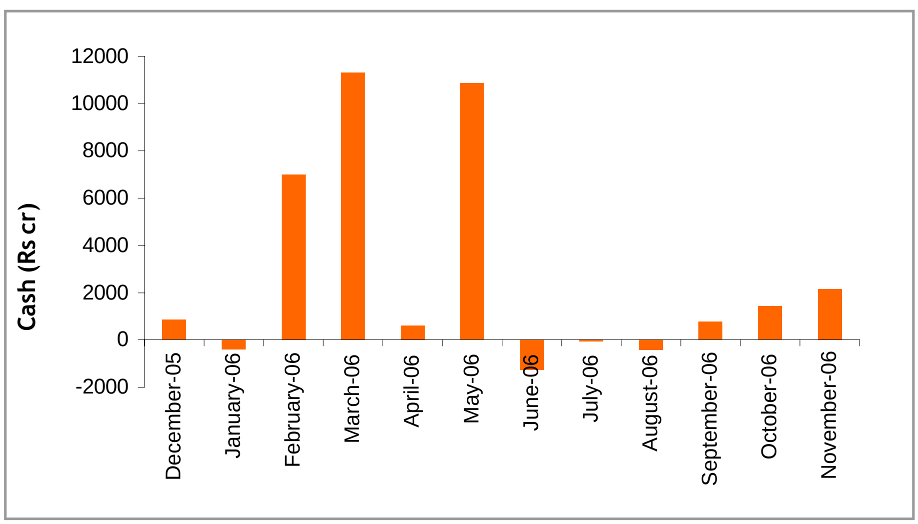
Benchmark Mutual Fund clocked the highest increase of 61.9%, amounting to Rs3,306 crore in its AUM. DSP Merrill Lynch Mutual Fund and SBI Mutual Fund followed Benchmark Mutual Fund and recorded increases of Rs1,687 crore and Rs543 crore respectively in their equity AUM. The top loser was Kotak Mahindra Mutual Fund, which saw its equity AUM declining by Rs70 crore, followed by ABN Amro Mutual Fund and JM Financial Mutual Fund.

- **Stock market activities for mutual funds**

Mutual funds turned net sellers of equities in November 2006.

Month	Purchase (Rs cr)	Sales (Rs cr)	Net (Rs cr)
Nov-06	12,675.21	12,700.04	-24.83

Equity fund flow

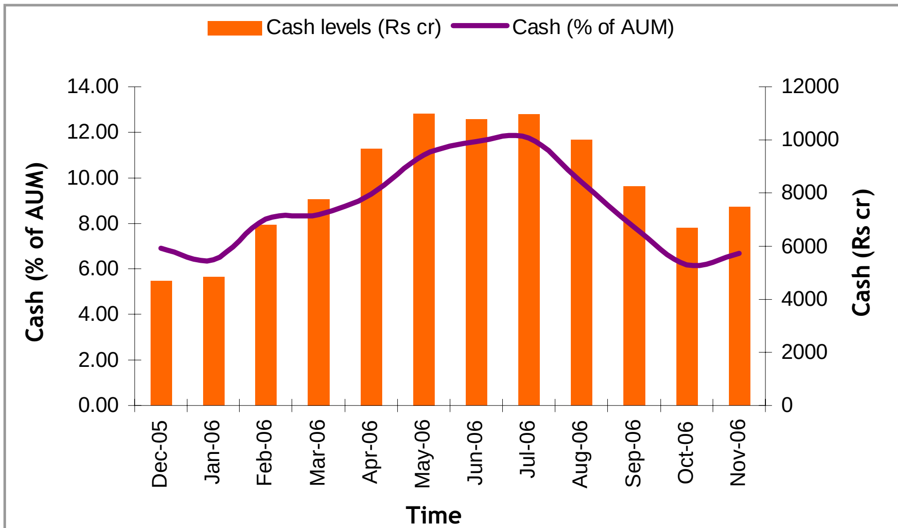


Fund flows into equity mutual funds continued their upward trend, with equity mutual funds registering a net inflow of Rs2,147 crore in November 2006. The rise in the fund flows in November as compared with October is mainly attributed to the higher amounts mobilised by the NFOs (Rs1,671 crore in November 2006 compared with only Rs1,466 crore in October 2006) and higher amounts of money flowing into the existing schemes. Even though the redemption volumes stood marginally higher at Rs7,154 crore, the higher NFO collections coupled with the higher amount flowing into the existing schemes were high enough to result in an overall increase in the net fund flow into equity mutual funds. The NFO collections include the amounts raised by DSP Merrill Lynch Small & Midcap Fund and SBI Arbitrage Opportunities Fund. The same however do not include the collections made by JM Financial Services Sector Fund, JM Telecom Sector Fund, Franklin Templeton Capital Safety Fund and Standard Chartered Arbitrage Fund. These funds were launched in November but did not close in the month, as the allotment of the units for these funds is not yet complete. The collections made by these funds (approximately Rs1,000 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 November 2006 increased from Rs6,689 crore in October 2006 to Rs7,487 crore in November 2006. The cash as a percentage of the total corpus also followed a similar trend, increasing marginally to 6.7% of the total corpus in November 2006 from 6.2% in October 2006.

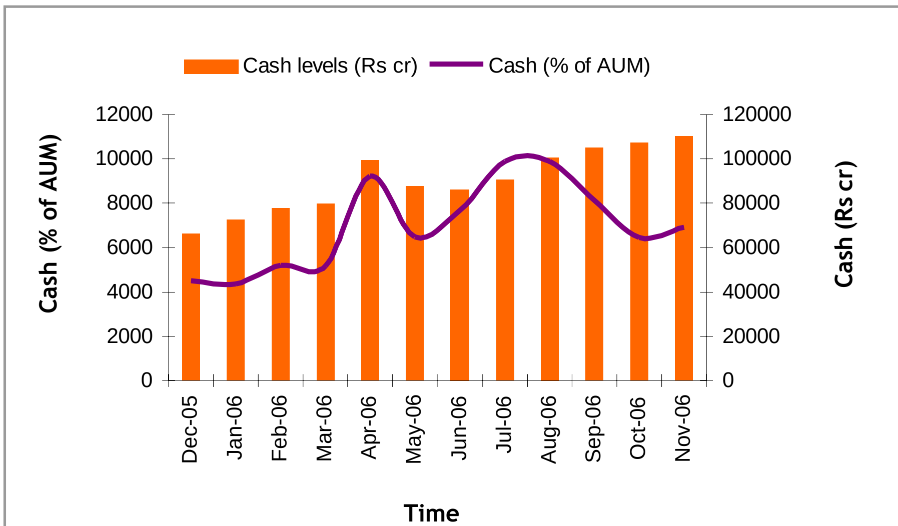


Note: Includes all equity funds in the industry launched before November 2006

Although this may signal that mutual funds may be expecting a short-term correction in the market, it is more likely that funds are holding cash more to counter the redemption requests, with investors wanting to book profits, with the market at an all-time high. Further, a large part of the increase in the cash levels can be attributed to the higher NFOs closing in November, with the NFO schemes sitting on large amounts of cash waiting to be deployed in the market. As seen below, excluding the impact of the newly launched schemes, the increase in the cash levels is more nominal.

Sentiments

Cash as a percentage of the total corpus (for all funds which are at least three months old) increased marginally from 6.0% in October 2006 to 6.3% in November 2006. This is probably because the funds are holding onto larger amounts of cash to counter the redemption requests, with investors inclined to book profits at such high levels.



Note: Includes all equity funds in the industry with a NAV track record of three months+.

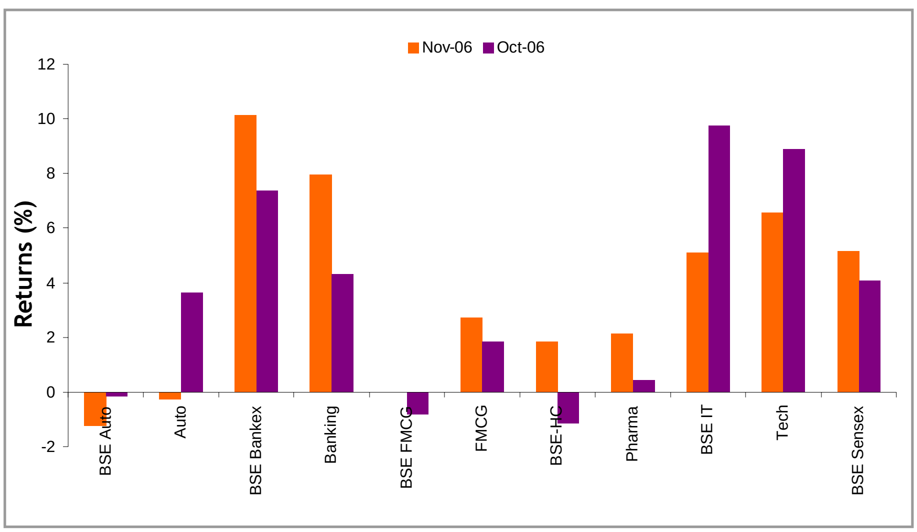
Sector allocation

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

Sector name	November 2006		October 2006		% change
	Amount (Rs cr)	% of net assets	Amount (Rs cr)	% of net assets	
Increase in exposure					
Housing & Construction	4980.7	5.8	3988.1	4.7	1.1
Computers - Software & Education	9750.2	11.3	8944.3	10.5	0.8
Telecom	4275.1	4.9	3774.9	4.4	0.5
Entertainment	2115.9	2.4	1743.1	2.0	0.4
Finance	1210.2	1.4	894.2	1.0	0.4
Engineering & Industrial Machinery	3088.7	3.6	2839.0	3.3	0.2
Decrease in exposure					
Miscellaneous	4079.1	4.7	4660.1	5.5	-0.7
Banks	6417.5	7.4	6829.4	8.0	-0.6
Metals	1044.9	1.2	1508.0	1.8	-0.6
Electronics	1335.2	1.5	1758.9	2.1	-0.5
Oil & Gas, Petroleum & Refinery	3402.2	3.9	3784.2	4.4	-0.5
Diversified	11856.6	13.7	12103.2	14.2	-0.5

Performance of sector funds

With the Sensex advancing by an appreciable 5.2% in November, most fund categories except technology and auto funds have generated significantly higher returns in November 2006 as compared with the returns clocked in October 2006. Banking and technology funds have outperformed the Sensex, whereas funds in the auto, FMCG and pharmaceutical sectors have underperfomed the Sensex by margins of 1-4%. Additionally, funds in the auto, FMCG, pharmaceutical and technology sectors have outperformed their respective benchmark indices (the BSE Auto, the BSE FMCG, the BSE Healthcare and the BSE IT indices) whereas the funds in the banking sector have underperformed the BSE Bankex index in November 2006. Banking funds gave the highest returns in November 2006, followed by technology and FMCG 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.