Mutual Fund Industry in India

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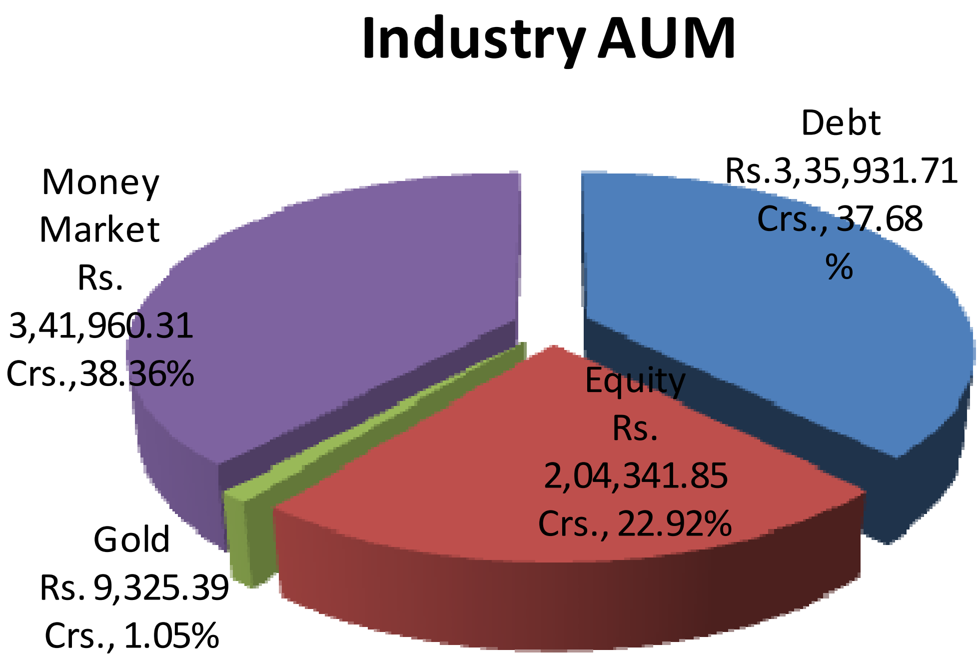
A View of Indian Mutual Fund Industry

Total industry AUM with break-up across Equity, Debt & Gold



All figures as on 30th November 2013 and month end AUM. Source: ICRA MFI Explorer

Mutual Fund Industry vs Other Financial Products

Type	Amount in Rs. crs (Month End AUM)	Proportion(%)
Equity	2,04,341	22.92%
Liquid + Ultra Short Term	3,41,960	38.36%
FMPs	1,25,060	14.03%
Debt	2,20,196	24.70%
Total	8,91,559	100.00%

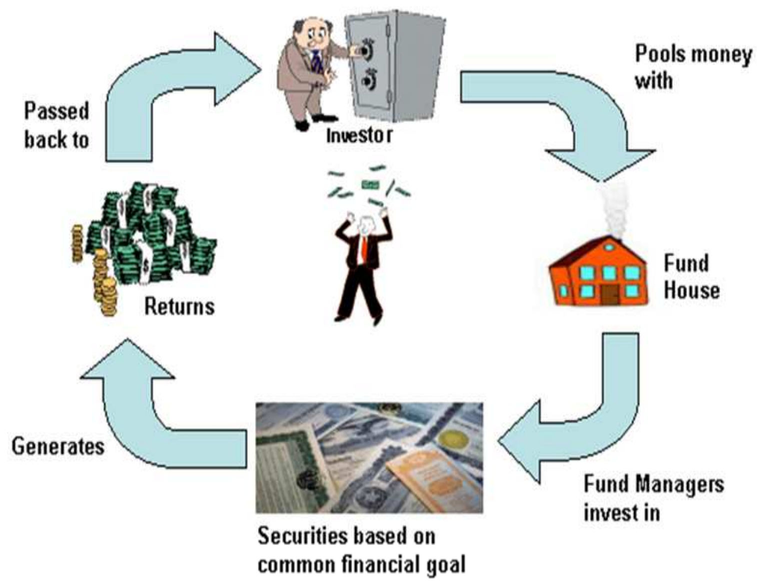
Month End AUM as on 30th November 2013. Source: ICRA MFI Explorer.

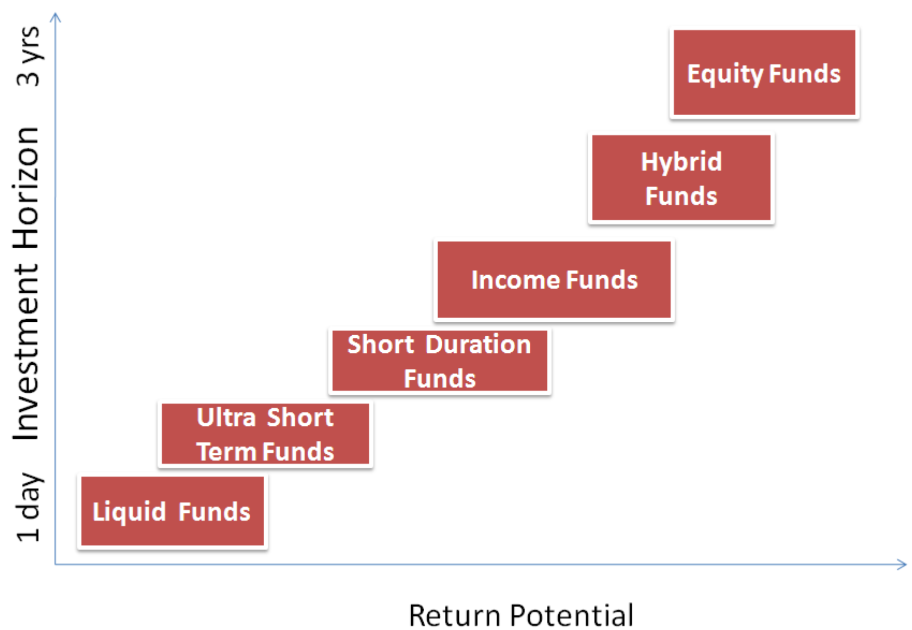
Type	Amount in Rs. crs
Bank Deposits*	73,61,607
Life Insurance**	18,74,757
Postal Savings***	6,05,697

*Data as on 30th September 2013.** Data as on June 2013 and *** Data as on 31st March 2012 .Source: RBI, IRDA & Indian Post website respectively

Mutual Funds – Key Benefits

- Pure pass through collective investment schemes
- Helps building assets across time periods right from 1 day through Liquid schemes to long term through equities





Mutual Funds – Key Benefits

- Returns from Mutual Fund schemes are in the form of Capital Gains or dividends making it tax efficient

	Equity Scheme			Other Schemes			Dividend Income	Dividend Distribution Tax			
	STCG	LTCG	TDS	STCG	LTCG	TDS		Equity Schemes	Liquid	Debt (other than infrastru	Infrastructure Debt Fund
Individual/ HUF	15%	Nil	Nil	30%^	10% without indexation or 20% with indexation	Nil	Tax Free	Nil	28.33%	28.33%	28.33%
Domestic Company	15%	Nil	Nil	30%	10% without indexation or 20% with indexation whichever is lower	Nil	Tax Free	Nil	33.99%	33.99%	33.99%
NRI	15%	Nil	15%	30%^	10% without indexation or 20% with indexation whichever is lower	STCG - 30% LTCG - 20% after indexation	Tax Free	Nil	28.33%	28.33%	5.67%

^Assuming the investor falls into highest tax bracket.

Mutual Fund Products – Fixed Income

- Portfolio creates returns by taking duration risk & credit risk
- Each product normally has a risk framework within which it operates viz the duration cap or the maximum portfolio below say AAA assets.
- The underlying market is liquid only in Government securities, PSU Bonds and Bank CDs. These contribute to over 95% of the traded volumes.
- The returns from the portfolio are linked to the underlying economy and the interest rate environment.
- A falling interest rate environment leads to rise in bond prices and hence higher returns from long dated bonds.

- Interest rate regime is a function of underlying inflation, current account deficit and fiscal deficit.

Fixed income - Valuation

- For <60 days securities: Amortised to maturity
    - However external sources provide an yield curve for the 60 day period for different rating category. The amortised prices are compared with the prices derived from this yield curve and are brought in within +/- 0.1% of the derived prices. In a way this is a partial marked to market.

- For securities > 60 days third party sources have now started providing prices for all the debt securities
    - This has brought in a uniformity of valuation prices across the industry

Source: NSDL, CSDL

Mutual Fund Investments - Equity

- The broad equity mutual fund schemes can be divided into
  - Large-cap – typically 20-25% of assets are in Midcap
  - Multi-cap – typically 30-50% are in Midcap
  - Midcap / Smallcap
  - Thematic / Sector Funds
  - Index Funds/ETFs

- Mutual Funds are ultimately alpha managers

Composite Performance of Mutual Funds Index	3 year (%)	5 year (%)	7 year (%)	10 year (%)
CRISIL-AMFI Equity Fund Performance Index	3.61	6.15	8.43	24.53
CRISIL-AMFI Large Cap Fund Performance Index	4.1	6.39	8.71	23.66
CRISIL-AMFI Diversified Equity Fund Performance Index	2.79	5.64	8.51	25.7
CRISIL-AMFI Small & Midcap Fund Performance Index	5.24	6.44	6.95	--
BENCHMARK				
CNX NIFTY	2.68	3.72	7.6	19.24
S&P BSE SENSEX	2.43	3.78	7.6	19.97

Source: Crisil AMFI Report

Source: NSDL, CSDL

Mutual Fund Performance Insights

- **CRISIL-AMFI Equity Fund Performance Indices have significantly outperformed the relevant benchmark equity indices**
  - CRISIL-AMFI Equity Fund Performance Index has given 22% cagr in the past 16 years since 1997, higher than the 12% cagr from CNX NIFTY and 13% from CNX 500.
  - CRISIL-AMFI Equity Fund Performance Index has never given negative returns for any 5-year period since 1997.
  - Even during volatile times (the last decade included two bull and two bear phases), the CRISIL-AMFI Equity Fund Performance Indices have delivered superior returns as compared with the CNX NIFTY.
- **CRISIL-AMFI ELSS Fund Performance Index outperformed market indices and generated higher return than small saving schemes**
  - In the past 10 years, CRISIL-AMFI ELSS Fund Performance Index outperformed CNX 500 and Public Provident Fund (PPF) rate by 6% and 18% respectively.
- **CRISIL-AMFI Money Market Fund Performance Index has consistently given better returns than the savings bank rate.**
- **CRISIL-AMFI Debt Fund Performance Index outperformed fixed deposits (FD) during declining interest rate cycles but underperformed during rising interest rate cycles.**

Market Myths

- In the Non-institutional equity market segment:-
  - Nearly 90% of the Traded Volume(in value terms) is in the F&O segment.
  - Approximately 10% of traded Volume is in the Spot Market Segment
  - Less than 5% of the traded volume is for the purpose of Delivery

- Though the Sensex Level of Jan-13 & Dec-2013 look similar (~21000) it is much cheaper in terms of valuations now
  - 08-Jan-08 Sensex was at 20,873 @ 25.5 X P/E (trailing)
  - 23-Dec-13 Sensex was at 21,101@ 17.8 X P/E (trailing)

- If one had invested equal amounts at peak of the market every calendar year since the last 15 years, he would have ended up with an XIRR of 11.08% as on 23-Dec-13

Source: BSE

US Fed Reserves & Quantitative Easing(QE)

- US Fed reserve requirements are the amount of funds that a depository institution must hold in reserve primarily against all forms of current account liabilities

Reserve requirements	
Net transaction accounts (primarily current account liabilities)	Requirement
$0 to $12.4 mn	0%
$12.4 mn to $79.5 mn	3%
More than $79.5 mn	10%

Source: BSE

US Fed Reserves & Quantitative Easing(QE)

- Reserve balances have steadily increased from the start of the crisis in Oct-08
- QE1 - In Nov-08, the Federal Reserve started buying $600 billion in mortgage-backed securities
- QE2 - In Nov-10, the Fed started a 2nd round of quantitative easing, buying $600 billion of Treasury securities
- QE3 - A 3rd round of quantitative easing was announced on 13-Sep-2012; an open-ended bond purchasing program of agency mortgage-backed securities and treasury bills, initially of $40 billion per month, increased to $85 billion per month on 12-Dec-12
- On 18-Dec-13, at its monthly Federal Open Market Committee (FOMC) meeting, the Federal Reserve decided to reduce the monthly pace of its asset purchases to $75bn

Month	Reserve balances required ($bn)	Reserve balances maintained ($bn)	Excess (times)
Jan-08	7	9	1.23
Nov-08	12	571	46.55
Nov-10	26	998	38.12
Sep-12	59	1,469	24.79
Nov-13	70	2,463	34.94

Source: US Fed

Disclaimers

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Thank You