FROM THE
FUND MANAGERS DESK

Indiabulls MUTUAL FUND

INDIABULLS ASSET MANAGEMENT COMPANY LTD. June, 2016

Sumit Bhatnagar - Fund Manager, Equity

Mr. Sumit Bhatnagar has over 14 years of experience in Banking & Capital Markets. He has been associated with Indiabulls AMC since inception. He played a pivotal role in setting up the AMC systems & processes and in framing business strategy, designing business plan and products for the AMC.

Mr. Bhatnagar started his career in Banking, having worked in IDBI Bank & Cosmos Bank, handling retail & corporate lending. He holds an MBA (Investment Management) from the University of Toronto, Canada and is also a CFA (USA).

EQUITY MARKET COMMENTARY

Key Domestic News

- In a shocking move, Dr. Raghuram Rajan announced his intention to quit the RBI, when his term ends in September 2016. While most of the market participants would have preferred him getting an extension, focus now is on who his successor would be. Government should move swiftly to announce his successor, to contain the uncertainty.
- Monsoon remained 11% below LPA in June, mainly on account of a delayed onset. However, IMD stated that they expect the shortfall to be made up in July.
- The government is mulling Indradhanush-II, expanding the scope of banking reforms to get rid of bad loans, manage risks better, bring millions of un-banked and under-banked people into the fold as well as create a holding company for the public sector banks.

Key Domestic Economic Data

- India Manufacturing PMI rose to 51.7 in June from May's 50.7, pointing to a slight improvement in the health of the country's manufacturing sector.
- India's CPI Inflation for the month of May 2016 rose to 5.76%, the highest in 19 months, driven largely by double-digit increases in some food articles. Retail inflation for April was 5.39%. With forecast for normal monsoon, we expect food inflation to soften towards the end of rainy season. WPI inflation too rose in May by 0.79%, up from 0.34% in April.
- India's Index of Industrial Production shrank 0.8% in April compared with a growth of 0.3% the previous month, driven by a 3.1% contraction in manufacturing activity. Volatile capital goods segment contracted for the sixth month in a row by 24.9%, indicating sluggish private capex.
- The eight 'core' sectors of the Indian economy grew 2.8% year-on-year in May, slowed from 8.5% in April. While April number was driven by weak base, May numbers look subdued due to higher base of last year.

Key Global Events

- In a major shock to the world markets, the unexpected 'BREXIT' happened as the 'Leave' camp won 51.9% of vote vs. 'Remain's 48.1%. BREXIT has created a major overhang on global economy, with high possibility of follow-on tremors from other European nations. On the flip side, global liquidity conditions would now be even more benign for foreseeable future.
- The US FOMC policy statement, economic projections, and Jannet Yellen press conference following the meeting in mid-June surprised markets with their extreme dovishness. Market analysts are now assigning a very low probability of a rate hike this year.
- Post BREXIT, Bank of England Governor Mark Carney more or less promised a rate cut this summer, and hinted at more QE, if necessary.

Outlook

- While BREXIT and its cascading effects would lead to recurring bouts of volatility in near future, we expect even stronger co-ordination between Central Banks and liquidity conditions to remain very benign in foreseeable future.
- We believe that domestic consumption and public spending should remain strong over next few quarters, and slowly feed into private capex.
- Q1 earnings, legislative action on GST bill and monsoons are the key triggers for the market in the short term.
- India continues to be best medium to long term story for both FDI & FII investments. Any short term volatility around global factors should be utilized by investors to build high quality portfolio in Indian equities.
- Uncertainty around China, follow-on effects of BREXIT, central government's failure to push through big ticket reforms and a reversal in commodity prices continue to be key risk to our outlook.

Malay Shah - Head, Fixed Income

Mr. Malay Shah has around 14 years of experience in the field of finance. He has exposure to Debt Dealing and Fund Management. Prior to joining Indiabulls Asset Management Company Limited, he was working in the capacity of Head - Fixed Income with Peerless Funds Management Co. Ltd.

He is a Commerce graduate and has done his MMS in Finance from NMIMS.

DEBT MARKET COMMENTARY

June	Month Opening	Intra Month High	Intra Month Low	Month Closing
Overnight Rate (NSE MIBOR)	6.50	6.65	6.37	6.43
10 year Gsec	7.49	7.52	7.44	7.45
3 month CDs	7.16	7.16	6.70	6.70
6M CDs	7.30	7.30	7.10	7.10
12 month CDs	7.50	7.50	7.40	7.40
Currency	67.45	67.91	66.50	67.52
10 Year US Treasury	1.85	1.85	1.46	1.49

Inflation

Coming at a 19 month high, retail inflation as measured by CPI (consumer price index) for may 2016 surged to 5.76% as compared to April number of 5.47 % (revised upwards from 5.39%). Like before, food inflation index rose to 7.55% as compared to 6.40% in April. WPI (wholesale price index) again hit a new high by coming at 0.79% as compared to 0.34% in April. Within WPI, prices of manufactured goods, having approximately 65 % weight, had begun to move upwards, after declining for more than 10 consecutive months. This indicates that deflationary phase, during which corporate top line growth lagged, might be nearing an end.

Macros

India Manufacturing PMI rose to 51.7 in June from May's 50.7, pointing to a slight improvement in the health of the country's manufacturing sector. India's Index of Industrial Production shrank 0.8% in April compared with a growth of 0.3% the previous month, driven by a 3.1% contraction in manufacturing activity. Volatile capital goods segment contracted for the sixth month in a row by 24.9%, indicating sluggish private capex. The eight 'core' sectors of the Indian economy grew 2.8% year-on-year in May, slowed from 8.5% in April. While April number was driven by weak base, May numbers look subdued due to higher base of last year. The trade deficit narrowed to approximately 6.2 billion usd. Exports continued to dip, although the decline is at a slower pace. Fiscal deficit during April-May stood at Rs 2.30 lakh crore, which is more than 42% of the budgetary estimate for the year 2016-2017. RBI at it's bi-monthly monetary policy kept the key rates unchanged, however it reiterated its accommodative stance. It also retained it's april forecasts for inflation, however the risk to it was highlighted with a indication of upward bias.

Liquidity and Rates

Borrowing from RBI's was approximately 40,000 crores as compared to nearly a 1,00,000 crore borrowing in previous month. This is a significant dip and indicates that RBI's commitment to keep the liquidity in comfortable zone is working out. Instruments across the curve enjoyed a liquidity backed rally. 2-3 month till march 2017 maturity papers had the usual quarter crossing rally and the mid to long maturity papers had a rally sponsored by global macros. BREXIT led to huge flows to safe haven debt as a asset class, with multiple countries witnessing near to and sub zero yields on long term papers. All this positive cues led to rally in the domestic markets also. Add to it the fact that US FED refrained from hiking the rates, and it gave additional comfort to the markets. All this combined, kept the momentum going with assets witnessing a sharp and quick rally.

Outlook

RBI's accommodative stance, coupled with good monsoon led rate cut, will keep the markets in a buoyant zone. Additionally, comfortable liquidity will keep pulling down the near end of the curve. On the bond front, demand supply is equation is very much favourable, with RBI's continuous omo taking the stress out of the equation. Upward movement in inflation numbers might be a cause of concern, however, good monsoon will help in cooling down the surging/sticky food inflation. Additionally, a proper supply chain management is the key to solving the food inflation which is plagued by infrastructure bottlenecks. Overall a good monsoon and sluggish economy will provide the room for further rate action. Basis all this, we will witness a positive movement albeit at a varying pace in the yield curve. Existing investors are recommended to stay invested in medium to long duration space. For new investors short term fund offers a wonderful vehicle to earn high constant accrual and a chance to participate in rate action led capital appreciation. Liquid and ultra short term fund, as always will be vehicles for smart utilisation of temporary surpluses.