

INDIAN DEBT MARKET COMMENTARY

During the month Indiabulls Mutual Fund has received final observation from SEBI for “Indiabulls Ultra Short Term Fund” and the fund is scheduled to open on 5th January 2012.

The month of December traditionally had been a tight liquidity month and this year was no exception. The short fall in liquidity was mirrored in the LAF figure which remained well in excess of RBI’s comfort level of 1% of NDTL and crossed 1 lakh crore mark consistently. After starting the month on a docile note, the borrowing from the LAF window kept on increasing clocking a high of ₹ 1,73,310 crore recorded on 23rd December. The daily average for the month was ₹ 1,16,931 crore. The rates in the CBLO segment too crossed 9% mark occasionally.

In a move to ease some pressure from the system RBI decided to permit banks to avail funds from RBI on overnight basis under Marginal Standing Facility (MSF) up to an additional 1% of their respective outstanding. The Open Market Operations (OMO) was also conducted alongside the auction of Government bonds.

The inflation numbers trended on the expected lines. The twin effect of higher base effect and the sharp fall in the index of Primary Articles and Food item induced a sharper fall than the expectation. The inflation data for the month of November came at 9.11% against the previous month level of 9.73%. The latest data release saw the Food inflation for the week ended December 17th extending its downward journey for the eighth consecutive week clocking a six year low level of 0.42% y.o.y. as prices of fruits and vegetables eased. This is the lowest level since April 2006. Fuel and power inflation was 14.37%, lower than 15.24% recorded in the previous week. The index for primary articles, including that of food, non-food products and minerals, rose by 2.7% y.o.y. slower than 3.78% recorded in the previous week.

In the forex market, the continued Dollar strength in the global market and sustained FII selling had its impact on Rupee as well with INR crossing 54 mark convincingly during the month and touched a record low of INR 54.30/USD. The sharp fall led RBI to step in and intervene in the Forex market to arrest the fall. The Central Bank announced slew of measures to reduce speculative element from markets by reducing notional amount on which corporates could hedge currency risk. The corporates will not be allowed to re-book a cancelled contract, falling due within one year. The Banks will also not be able to front-run the importers’ demand for dollars as the RBI has reduced the net overnight open possible limits (NOOPL). The Indian Rupee closed the month at INR 53.24/USD against the previous month closing of INR 52.22/USD.

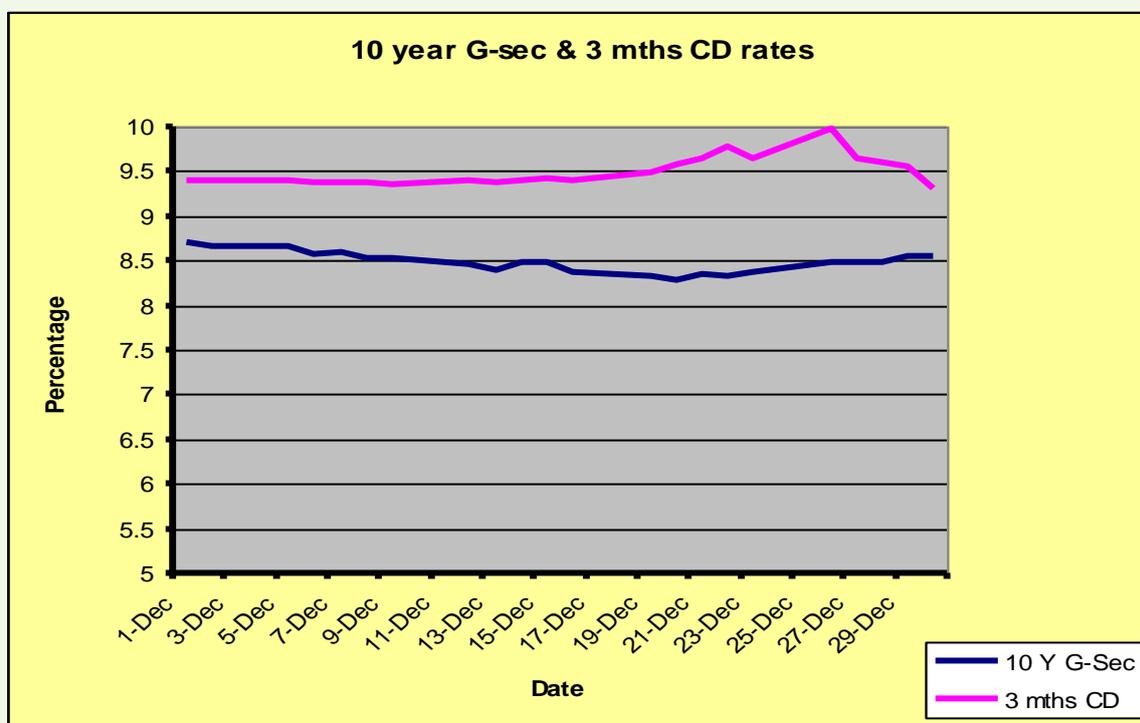
In a major development for the interest rate markets, the policy stance of the Reserve Bank of India turned away from being hawkish leading to an emphatic rally in the bond market. With all key rates left unchanged and comfort taken from declining Food inflation, the concern of dwindling growth came to fore.

The guidance suggests that the future direction of monetary policy stance now rests more on the growth trajectory as RBI states that *“monetary policy actions are likely to reverse the cycle, responding to the risks to growth”*. The regulator has also cut its growth forecast for FY2012E to 7.6% from 8.0%. The inflation expectation has been maintained at 7% for FY2012. The central bank while mentioning that *“inflationary pressures are expected to abate in the coming months despite high crude oil prices and Rupee depreciation”* indicated that the risks to inflation remain high and can manifest quickly as a result of both demand- and supply-side factors.

The bond market which was already getting ready for a pause welcomed the move and rallied across the curve. The ten year bench mark 8.79% GOI 2021 which was at 8.50% yield before the policy crossed 8.30% on the lower side before finding a range of 8.32% - 8.35%. After trading in the range for a while, the rally lost its steam due to the profit booking and more importantly due to expectation of increased borrowing announcement. The surprise announcement of

₹ 15,000 crore auctions conducted on 30th December took market by surprise and the market gave away most of the gains. The ten year yield rose to close the month at 8.57% against the previous month closing of 8.74%. The corporate bond market also reacted in similar fashion with ten year AAA rated PSU bond closing the month in the range of 9.35%-9.40% as against the previous month closing range of 9.65%-9.70%.

The spike in the short term money market rates reflected the tight liquidity condition arising out of Advance tax outflows and reduction of bank investment in mutual funds due to the applicability of RBI directive to limit the investment in money market mutual fund schemes to the extent of 10% of net worth wef January 2012 and quarter end consideration for CAR. The CD issuances outstripped the demand and the 3 month CD rate spiked to a nine month high of 9.98% on December 26, as against previous month closing level of 9.47%. The anticipation of comfortable liquidity in the beginning of the next month/quarter on increased government expenditure saw the rates in the money market fall with three month and one year bank CDs getting dealt respectively at 9.31% and 9.69% respectively.



GLOBAL EQUITY MARKETS COMMENTARY

Key events in 2012 that would shape up the Equity Markets.....

French Elections: Presidential elections in France are to be held on 22nd April. Sarkozy is wooing the voters for the 2nd term although the polls indicate Sarkozy's main contender Socialist candidate Francois Hollande leading in the race for the presidency. Hollande has expressed his disagreement on the recent Euro Zone treaty aimed at resolving the sovereign debt crisis – **indicating the uncertainty in Euro Zone to prevail in 2012.**

Estimated €537.2Bn of PIIGS (Portugal, Italy, Ireland, Greece, Spain) debt is maturing in 2012. This is expected to keep the markets volatile as it was in 2011.

Chinese Elections: National People Congress (NPC) election is to be held between Oct. '12 and Feb. '13. NPC is empowered to elect President, Premier, Vice President, Chair of Central Military Commission, President of Supreme People's Court, and Procurator General of Supreme People's Procuratorate. President Hu Jintao would be giving way to new generation of leaders after a decade in power.

The health and stewardship of China's economy will be a focus of global attention in 2012. Warnings are emerging that China may be a case of "Hard Landing" which could lead to a spectacular crash rather than a smooth slowdown it is aiming for. Apart from this, China's GDP growth rate, NPAs with Banks and Real Estate bubble would ensure that **the key commodities would remain under pressure.**

US Elections: Presidential elections in US are to be held on 6th November. Obama has indicated that he will be running for the 2nd term and is most likely to get the Democrat nomination unopposed. **This being an election year, more populist measures may be announced – like tough sanctions against outsourcing.**

US FED: It is expected to maintain the federal funds rate near zero until at least mid-2013. This benchmark rate, which influences many types of loans, has been pinned at rock-bottom levels since the depths of the recession in December 2008. **Also the sustainability of the better macros coming out of US in recent months is a key monitorable.**

Iran: It has continued with its defiance inspite of the sanctions and has started the New Year by announcing that it has produced nation's first nuclear rod, a feat of engineering the West has doubted Tehran capable of. **Oil will continue to remain buoyant.**

India Elections: Legislative Assembly elections in Goa, Gujarat, Manipur, Punjab, Uttar Pradesh, Uttarakhand – to be held in February '12 and Gujarat along with Himachal Pradesh at a later date. In case Congress does well – it will increase its bargaining power vis a vis its allies in UPA and also against the Opposition. New allies coming into UPA is also not ruled out. **If Congress emerges stronger – the stalled reforms are expected to get a push.** Expectations are also for a Mid Term Lok Sabha elections in October '12 in case UPA does well in the elections. Also Presidential Elections are due in July '12.

India Budget 2012 – 13: to be announced after the Legislative Assembly elections – results to be declared on 4th March '12. Some of the key announcements to be watched for would be the Government finances especially the borrowing program, Fiscal Policy and Deficit, Direct Tax Code, GST, STT etc.

RBI Monetary stance: On the onset of the New Year – RBI Governor Subbarao has stated that growth would be a bigger concern in 2012. **We believe that the RBI would start cutting interest rates from Q2FY13.**

Rupee: Over next 12 months, payments by the Indian corporate to the tune of \$120Bn are due in terms of redemption of their borrowings overseas. **This will keep the pressure intact on INR.** Finance Ministry will have to do more than the recent moves like allowing the foreigners to invest into equity markets directly to keep the inflows intact.

India Monsoons: The high base effect of inflation would dilute from April '12 onwards. **Also indications are there that there is a distinct slowdown in the rural economy.**

INDIABULLS LIQUID FUND
 (An open-ended liquid scheme)

 Credit Risk Rating
 AAAMf by CRISIL*

Investment Objective

To provide a high level of liquidity with returns commensurate with low risk through a portfolio of money market and debt securities with maturity of upto 91 days. However, there can be no assurance that the investment objective of the Scheme will be achieved.

Fund Details
Fund Manager

Mr. Raju Sharma
 Total work experience: 20 years

Indicative Investment Horizon

1 day to 1 month

Benchmark Index

CRISIL Liquid Fund Index

Inception Date

October 25, 2011

Nav (As on 30 December 2011)

Indiabulls Liquid Fund Growth
 ₹ 1017.0115

Indiabulls Liquid Fund Daily Dividend
 ₹ 1000.0000

Indiabulls Liquid Fund Weekly Dividend
 ₹ 1001.0554

Indiabulls Liquid Fund Fortnightly Dividend
 ₹ 1000.0000

Indiabulls Liquid Fund Monthly Dividend
 ₹ 1007.4063

Option

The Scheme offers the following Options across a common portfolio:

- Growth Option
- Dividend Option

Default Option/ Facility

Default Option - Growth
 Default dividend facility - Reinvestment

Minimum Application Amount

₹ 5000 and in multiples of ₹ 1/-thereafter.
 Minimum Additional Purchase Amount:

Load Structure

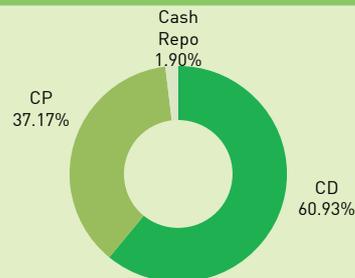
Entry Load: Not Applicable
 Exit Load: Nil

SIP/STP/SWP

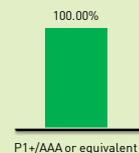
SIP/STP/SWP facilities are not available

PORTFOLIO

Name of Instrument/Issue	Rating	Amt (₹ in Cr.)	% of Portfolio
Certificate of Deposits			60.93%
Indusind Bank Ltd CD	A1+	123.12	9.40%
Karur Vysya Bank CD	A1+	122.78	9.37%
Vijaya Bank CD	A1+	113.92	8.70%
Canara Bank CD	A1+	98.55	7.52%
Allahabad Bank CD	A1+	98.23	7.50%
Axis Bank Ltd CD	A1+	49.35	3.77%
Punjab National Bank CD	A1+	49.26	3.76%
Corporation Bank CD	A1+	24.98	1.91%
Andhra Bank CD	A1+	24.51	1.87%
Bank of Maharashtra CD	A1+	24.50	1.87%
UCO Bank CD	A1+	24.44	1.87%
Central Bank Of India CD	A1+	24.43	1.87%
ICICI Bank Ltd CD	A1+	20.00	1.53%
Commercial Papers			37.17%
Coromandel International Ltd CP	A1+	147.16	11.24%
HDFC Ltd CP	A1+	98.61	7.53%
Apollo Tyres Ltd CP	A1+	98.58	7.53%
GIC Housing Finance Ltd CP	A1+	24.70	1.89%
JM Financial Products Pvt Ltd CP	A1+	24.67	1.88%
Tube Investment of India Ltd CP	A1+	24.66	1.88%
Indian Oil Corporation Ltd CP	A1+	24.48	1.87%
Aditya Birla Finance Ltd CP	A1+	24.42	1.86%
Aditya Birla Money Ltd CP	A1+	19.52	1.49%
Reverse Repo/Cash/Other Current Assets		24.90	1.88%
Total		1309.77	100.00%

Asset Allocation

Quantitative Indicators

Average Maturity	61 Days
Modified Duration	55 Days

Rating Profile

Dividend History - Monthly Option

Record Date	Face Value	NAV	Divident/Unit
01-11-2011	₹ 1000	₹ 1002.0023	₹ 2.0023
01-12-2011	₹ 1000	₹ 1009.5368	₹ 9.5368

Pursuant to payment of dividend, the NAV of all the schemes has fallen to the extent of dividend distribution and statutory levy (if any). Past performance may or may not be sustained in future.

**CRISIL Disclaimer: A CRISIL credit quality rating on a bond fund reflect CRISIL's current opinion on the degree of protection offered by the rated instrument from losses related to credit defaults. It does not constitute an audit by CRISIL of the fund house, the scheme, or companies in the scheme's portfolio. CRISIL ratings are based on information provided by the issuer or obtained by CRISIL from sources it considers reliable. CRISIL does not guarantee the completeness or accuracy of the information on which the rating is based. A CRISIL rating is not a recommendation to buy, sell or hold the related scheme: it does not comment on the market price or suitability for a particular investor. ALL CRISIL ratings are under surveillance.

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Statutory Details: Indiabulls Mutual Fund has been set up as a Trust under the Indian Trusts Act, 1882; **Sponsor:** Indiabulls Financial Services Ltd. **Trustee:** Indiabulls Trustee Company Ltd. **Investment Manager:** Indiabulls Asset Management Company Ltd (AMC). The Sponsor is not responsible or liable for any loss resulting from the operation of the scheme beyond the initial contribution of Rs. 50,000/- made by it towards setting up the Fund.

Risk Factors: Mutual funds and securities investments are subject to market and other risks and there can be no assurance that the Scheme's objectives will be achieved. As with any investment in securities, the NAV of Units issued under the Scheme can go up or down depending on the factors and forces affecting capital markets. Past performance of the Sponsor/AMC/Mutual Fund does not guarantee the future performance of the Scheme. Investors in the Scheme are not being offered a guaranteed or assured rate of return. **The name of the Scheme does not in any manner indicate the quality of the Scheme, its future prospects or returns.** Mutual Fund Units involve investment risks such as trading volumes, settlement risk, liquidity risk, default risk including the possible loss of principal. As the price/value/interest rate of the securities in which the scheme invests fluctuates, the value of your investment in this scheme may go up or down. For detailed scheme specific risk factors, please refer the Scheme Information Document.

The Statement of Additional Information (SAI), Scheme Information Document (SID) and Key Information Memorandum cum Application Forms (KIM) are available on the website www.indiabullsmf.com / Investor Service Centres / Distributors. **Please read the SAI, SID and KIM carefully before investing and retain these documents for future references.**

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