Fund*Market* Insight Report
India Market—Month-End Analysis
August 31, 2011

MORE LOSSES AS MACRO WOES PERSIST AND FOREIGN FLOWS STAY NEGATIVE

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- The historic credit downgrade of US sovereign debt and the Eurozone debt crisis took center-stage in August, ratting markets in the process; the MSCI World index shed 7.26% on the month.
- The S&P CNX Nifty finished 8.77% lower, while India-registered unit trusts retreated 1.30% on average.
- Performance has been flat to negative almost across the board; the sharpest losses were among equity and mixed asset portfolios, which shed 7.76% and 1.72% respectively.
- Fixed income funds benefited from rising risk aversion globally and locally, and bond funds were the only asset class to post decent gains – of 0.76% - on the month.
- As the US and EU falter and doubts remain over the likelihood of a global recovery, investors would do well to stay cautiously positive for any improvements in the market environment.

Markets Summary

Global market movements in August were dominated by (a) the first ever ratings downgrade of US sovereign debt from the top-notch 'AAA' to 'AA+ by Standard & Poor's (despite an eleventh-hour agreement by US policymakers to raise the nation's debt ceiling and initiate spending cuts, the credit rating agency expressed doubts over the adequacy of the measures); and (b) heightening risk of debt contagion in the Eurozone (with Italy trying to incorporate sharper austerity measures, and France rumoured to be next in line for a credit downgrade of its own AAA rating). Most major stock indices touched two- and three-year lows as a result (the MSCI World index shed 7.26% on the month). Weak global markets translated into net outflows by foreign institutional investors (FIIs) from Indian equities in August, and added to the month's negative performance; the S&P CNX Nifty finished the month down 8.77%.

On the flip side, gold prices shot up to all-time highs (the FT Gold index rose 11.36%), and somewhat counter-intuitively, sovereign bond markets in the US and Eurozone rallied, as investors chased the usual safe haven assets amid limited alternatives. Policy decisions by US and European central bankers also buoyed the month's demand for sovereign debt. The Federal Reserve reiterated its intention to keep policy rates unchanged until at least mid-2013, and the month ended with rising market expectations for a third round of quantitative easing. The European Central Bank (ECB) too met market expectations and kept policy rates on hold, while also buying Irish, Portuguese, Spanish and Italian debt in an effort to stabilize markets.

Likewise, Indian fixed income markets benefited from the risk aversion and from speculation that the Reserve Bank of India may moderate its heretofore hawkish stance amid global slowdown fears and easing commodity-price-driven inflation. Most sectors in the fixed income space outperformed equities, with lower-risk classes leading the gains. For instance, the Citigroup World Government Bond index rose 2.07% on the month, while the Citigroup High Yield Market index shed 3.88%.

Table 1 Performance of India Versus Global Equities (in %, Local Currency)

Name	Country	Price LC 31/08/2011	% Growth 1M 31/07/2011 To 31/08/2011	% Growth YTD 31/12/2010 To 31/08/2011	% Growth 1Y 31/08/2010 To 31/08/2011	% Growth 3Y 31/08/2008 To 31/08/2011
ASX All Ordinaries CR	Australia	4,369.85	-2.90	-9.84	-1.55	-16.21
BOVESPA (Ibovespa) CR	Brazil	56,495.12	-3.96	-18.48	-13.28	1.46
BSE SENSEX	**India**	**16,676.75**	-8.36	-18.69	-7.20	**14.50**
CAC 40 CR	France	3,256.76	-11.29	-14.40	-6.70	-27.35
DAX 30 CR	Germany	3,281.65	-19.19	-19.05	-5.53	-19.19
Dow Jones Industrial Average CR	USA	11,613.53	-4.36	0.31	15.96	0.61
FTSE 100 CR	UK	5,394.53	-7.23	-8.57	3.24	-4.29
FTSE Bursa Malaysia KLCI CR	Malaysia	1,447.27	-6.56	-4.72	1.74	31.51
Hang Seng CR	Hong Kong	20,534.90	-8.49	-10.86	-0.01	-3.42
Jakarta Composite Index CR	Indonesia	3,841.73	-7.00	3.73	24.66	77.37
KOSPI Composite CR	South Korea	1,880.11	-11.86	-8.33	7.88	27.53
Nikkei 225 CR	Japan	8,955.20	-8.93	-12.45	1.49	-31.50
Philippine PSE Composite CR	Philippines	4,348.50	-3.44	3.51	21.94	61.77
RTS CR	Russia	1,702.28	-13.37	-3.84	19.78	3.41
S&P CNX Nifty CR	**India**	**5,001.00**	-8.77	-18.48	-7.43	**14.70**
Shanghai Composite CR	China	2,567.34	-4.97	-8.57	-2.71	7.09
Singapore Straits Time CR	Singapore	2,885.26	-9.53	-9.55	-2.21	5.30
Taiwan Weighted Price CR	Taiwan	7,741.36	-10.44	-13.72	1.64	9.87
Thailand SET CR	Thailand	1,070.05	-5.60	3.61	17.18	56.34

Source: Lipper, a Thomson Reuters company

Registered Funds[1] Summary

Table 2 Performance of All Funds Registered for Sale in India (% Growth in INR)

Name	1M 31/07/2011 To 31/08/2011	YTD 31/12/2010 To 31/08/2011	1Y 31/08/2010 To 31/08/2011	3Y 31/08/2008 To 31/08/2011	5Y 31/08/2006 To 31/08/2011
Bond Funds Average	0.76	4.47	5.84	17.15	31.62
Equity Funds Average	-7.76	-15.12	-8.85	27.04	57.96
Mixed-Asset Funds Average	-1.72	-1.28	2.09	24.44	45.54
Money Market Funds Average	0.41	2.88	4.01	10.25	20.85
Other Funds Average	1.01	0.59	7.41	21.86	
Total Average	**-1.30**	**-1.55**	**1.09**	**19.46**	**39.60**

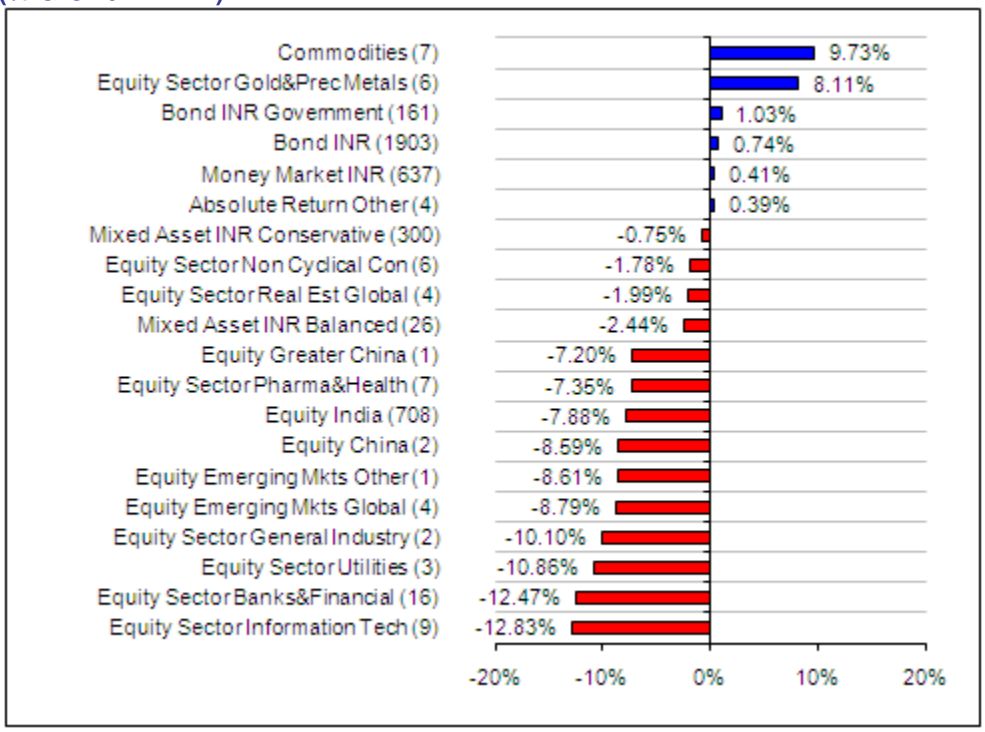
Source: Lipper Global Classifications (excludes ETFs and REITs)

India-registered unit trusts retreated by 1.30% on average in August, with funds sharply negative among risky asset classes and flat to moderately positive across safer asset class offerings. Downward pressure on domestic equities came not only from debt crises in the US and the Eurozone and slowing global growth, but also from accompanying negative foreign capital flows. Bond markets, on the other hand, benefited from macro-level uncertainties and rising risk aversion, As a result of these market movements, bond (+0.76%), and money market (+0.41%) funds ended the month with modest gains, while equity (-7.76%) and mixed asset (-1.72%) funds were net negative on the month..

1 Include both Authorized Schemes and Recognized Schemes that are offered for sale to retail investors. The Restricted Schemes, which can be offered only to sophisticated investors, are not reviewed. Further information on the Collective Investment Scheme (CIS) regimes can be found on the MAS Web site at http://www.mas.gov.sg/legislation_guidelines/securities_futures/sub_legislation/A_Practioner_s_Guide_to_the_CIS_Regime_under_the_SFA.html

Looking at the best-performing asset classes by Lipper Global Classifications (Figure 1 below), the only respite from the month's volatile underlying markets came from safe-haven allocations. Unsurprisingly, Commodities (+9.73%), Equity Sector Gold & Precious Metals (+8.11%), Bond INR Government (+1.03%) and Bond INR (+0.74%), all registered strong to decent gains. Likewise, the bottom-draw of performance by LGC was largely populated by allocations to underperforming equity sectors and regions such as Equity Sector Information Tech (-12.83%), Equity Sector Banks & Financial (-12.47%), Equity Sector Utilities (-10.86%) and Equity Emerging Markets Global (-8.79%), among others.

Figure 1 Ten Top- and Bottom-Performing Fund Sectors Registered for Sale in India, August 2011 (% Growth in INR)



Source: Lipper, a Thomson Reuters company

Outlook

September started off with much of the same fears and uncertainty plaguing the global financial markets. Investors struggled to find the right safe-haven securities to park their assets in among a limited set of alternatives – gold prices were range-bound after August's handsome gains (-0.68%), while 10-year US Treasury yields plunged further down (by 18 bps), in the first three weeks of September. Although renewed efforts by the world's leading central banks mid-month to inject liquidity breathed some life into the financial system, broad equity and commodity market movements continued to price in the potential for a global slowdown.

Our general view of the markets remains unchanged from last month. We believe that both the US and the Eurozone face significant challenges in the coming months, while markets in Asia contend with high inflation and slowing global growth, and investors are rightly concerned about these challenges. We also continue to believe that investors would do well to stay cautiously positive for any improvements in the market environment. For instance, valuations have become more attractive in the recent market sell-off, and offer good entry points for long-term investing in quality stocks. The overall strength of the corporate sector – in terms of balance sheet, revenue and cash positions – is also encouraging.

Looking specifically at the Indian markets the domestically-focused economy remains relatively insulated from global shocks, although it is still affected by foreign capital flows and funding. And despite aggressive monetary tightening in recent quarters, the economy continues to grow at a healthy pace; GDP data for the April-June quarter released at August end, show a 7.7% growth year-on-year that is in line with expectations. Inflationary pressures are easing as well, as the prospect of a global economic slowdown keeps commodity prices depressed. Furthermore, the recent anti-corruption movement led by Anna Hazare garnered broad public support, and might well pave the way for a more accountable and efficient administration and stronger corporate governance.

-End-

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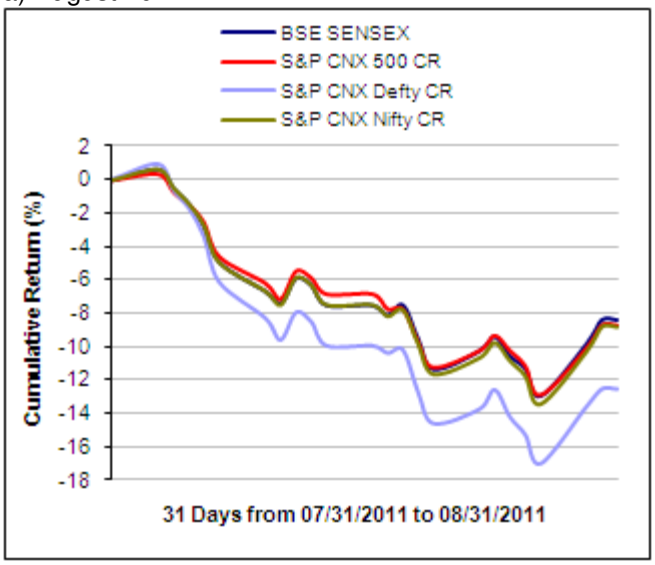
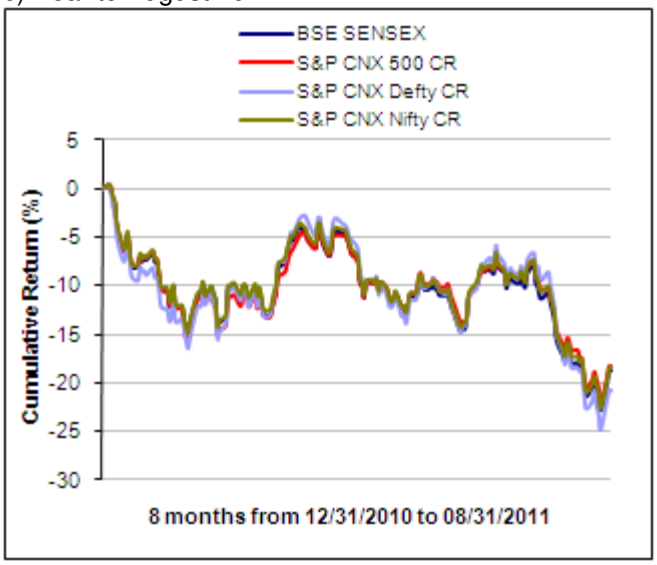
Appendix 1 India Financial Markets Snapshot—August 2011

Performance of Key India Equity Indices (% Growth in INR)

a) August 2011



b) Year to August 2011

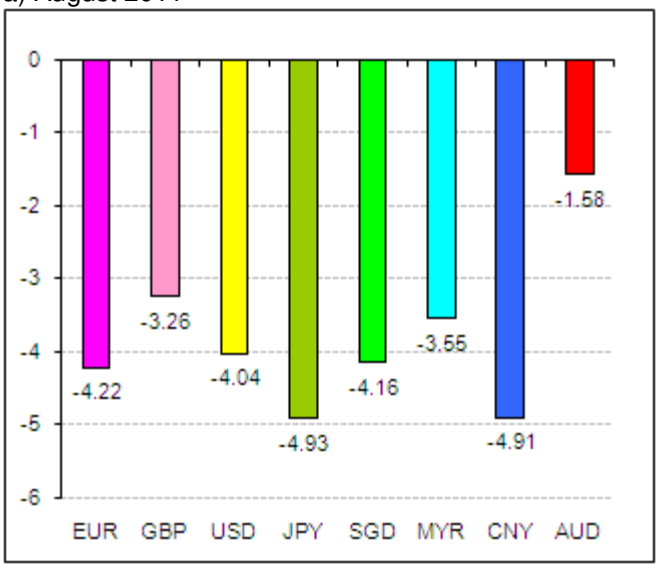


Source: Lipper, a Thomson Reuters company

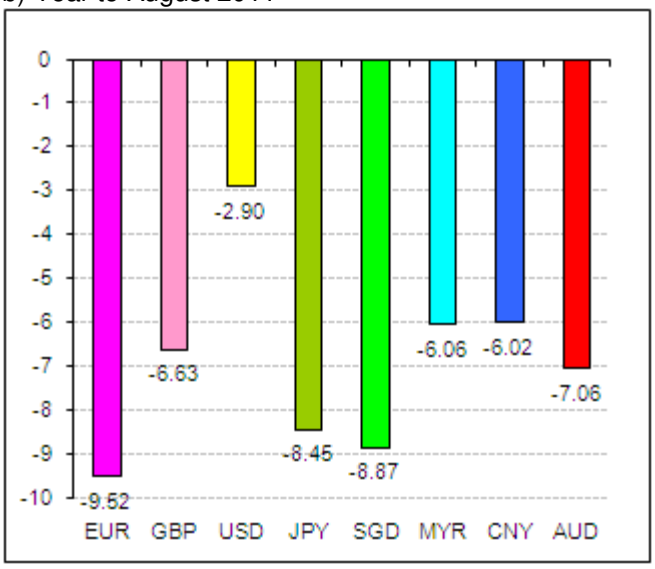
NB: The UOB SESDAQ Index has been renamed UOB Catalist Index, with effect from December 17, 2007, following the revamp of the former India second board SESDAQ as a sponsor-supervised listing platform for fast-growing local and international companies. Also, the Straits Times Index (STI) was revamped on January 10, 2008, by the SGX in partnership with the FTSE Group, comprising the 30 top SGX Mainboard listed companies by market capitalization.

Performance of Indian Rupee against Key Global Currencies (% Growth)

a) August 2011



b) Year to August 2011



Source: Lipper, a Thomson Reuters company

Appendix 2 Ten Top- and Bottom-Performing Equity Funds Registered for Sale in India

2A August 2011 (in INR Terms)

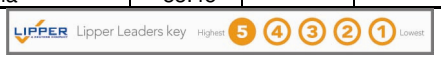
Fund Name	Lipper Global Classification	Growth 1 M %	Growth 1 Y %	Ann. S.D. 1 Y Value	Lipper Leaders (3 years) Consistent Return	Lipper Leaders (3 years) Preser-vation	Lipper Leaders (3 years) Total Return
Quantum Gold Savings Fund	Commodities	15.36					
Reliance Gold Savings Fund-Growth	Commodities	15.13					
Kotak Gold Fund-Growth	Commodities	15.12					
DSP BlackRock World Gold Fund-Growth	Equity Sector Gold&Prec Metals	9.84	19.53	19.59		3	
AIG World Gold Fund-Growth	Equity Sector Gold&Prec Metals	9.12	20.87	18.95		2	
Birla Sun Life Comm Eq-Global PreciousMetal-Growth	Equity Sector Gold&Prec Metals	5.36	10.38	17.98			
Goldman Sachs Eq&Derivatives Opportunities-Growth	Absolute Return Other	0.39	7.28	0.62		Leader	
Goldman Sachs Derivative Fund-Growth	Absolute Return Other	0.39	6.70	0.46		Leader	
Edelweiss Absolute Return Equity Fund-Growth	Equity India	0.00	2.52	5.27			
DWS Global Agribusiness Offshore Fund-Growth	Equity Sector Non Cyclical Con	-0.95	12.23	11.28			
Sundaram Financial Service Opportunities-Growth	Equity Sector Banks&Financial	-12.71	-14.68	26.72	4	3	4
Escorts Growth Plan-Growth	Equity India	-12.85	-21.31	20.29	2	1	2
UTI Banking Sector Fund-Regular Plan-Income	Equity Sector Banks&Financial	-13.39	-12.65	25.96	4	3	3
ICICI Prudential Banking & Fincl Services-Growth	Equity Sector Banks&Financial	-13.49	-11.55	26.61	2	3	1
Reliance Infrastructure Fund-Growth	Equity India	-13.56	-36.62	22.87			
Sundaram Entertainment Opportunities-Growth	Equity India	-13.64	-24.06	19.81	1	2	3
HSBC Progressive Themes Fund-Growth	Equity India	-13.79	-27.73	27.36	1	1	1
HSBC Midcap Equity Fund-Growth	Equity India	-14.28	-28.92	33.17	1	1	1
ICICI Prudential Technology Fund	Equity Sector Information Tech	-14.43	-6.77	24.88	4	1	4
Escorts Tax Plan-Growth	Equity India	-14.89	-23.23	22.50	1	1	1

Source: Lipper, a Thomson Reuters company

2B Year to August 2011 (in INR Terms)

Fund Name	Lipper Global Classification	Growth YTD %	Growth 3 Y %	Ann. S.D. 3 Y Value	Lipper Leaders (3 years) Consistent Return	Lipper Leaders (3 years) Preser-vation	Lipper Leaders (3 years) Total Return
ICICI Prudential FMCG Fund-Growth	Equity Sector Non Cyclical Con	17.29	86.61	23.70		Leader	
SBI Magnum Sector Funds Umbrella-FMCG	Equity Sector Non Cyclical Con	5.99	120.99	18.97		Leader	
AIG World Gold Fund-Growth	Equity Sector Gold&Prec Metals	5.82	97.88	36.70		2	
Goldman Sachs Eq&Derivatives Opportunities-Growth	Absolute Return Other	4.62	17.28	0.79		Leader	
Goldman Sachs Derivative Fund-Growth	Absolute Return Other	4.37	16.01	0.83		Leader	
DSP BlackRock World Gold Fund-Growth	Equity Sector Gold&Prec Metals	3.57	72.00	34.43		3	
ING Global Real Estate Fund-Growth	Equity Sector Real Est Global	0.40	-0.69	24.53		4	
UTI MNC Fund-Income	Equity India	0.33	79.66	21.44	4	Leader	Leader
Edelweiss Absolute Return Equity Fund-Growth	Equity India	-0.70					
DWS Global Agribusiness Offshore Fund-Growth	Equity Sector Non Cyclical Con	-1.38					
ICICI Prudential Technology Fund	Equity Sector Information Tech	-26.36	30.78	32.92	4	1	4
JM Multi Strategy Fund-Growth	Equity India	-27.02					
HSBC Progressive Themes Fund-Growth	Equity India	-27.87	-21.53	29.27	1	1	1
Reliance Diversified Power Sector Fund-Growth	Equity Sector Utilities	-29.75	0.89	32.10		1	
Escorts Power & Energy Fund-Growth	Equity India	-29.97					
Escorts Infrastructure Fund-Growth	Equity India	-30.37	-25.04	30.97	1	1	1
HSBC Small Cap Fund-Growth	Equity India	-30.40	1.87	38.26	1	1	1
HSBC Midcap Equity Fund-Growth	Equity India	-30.44	-3.21	38.23	1	1	1
JM Basic Fund-Growth	Equity India	-32.03	-48.43	53.08	1	1	1
Reliance Infrastructure Fund-Growth	Equity India	-33.45					

Source: Lipper, a Thomson Reuters company



Appendix 3 Ten Top- and Bottom-Performing Bond and Money Market Funds Registered for Sale in India

3A August 2011 (in INR Terms)

Fund Name	Lipper Global Classification	Growth		Ann. S.D.	Lipper Leaders (3 years)		
		1 M %	1 Y %	1 Y Value	Consistent Return	Preser-vation	Total Return
Tata Fixed Income Portfolio Fund-Sch A1-Growth	Bond INR	2.80	6.62	3.88	2	3	2
DWS Gilt Fund-Regular Plan-Growth	Bond INR Government	1.78	5.23	3.71			
DSP BlackRock Government Securities Fund-Growth	Bond INR Government	1.77	3.89	2.62	Leader	1	Leader
UTI Gilt Advantage Fund-Long Term Plan-Growth	Bond INR Government	1.71	8.40	1.65	Leader	1	Leader
L&T Gilt Fund-Cumulative	Bond INR Government	1.66	7.84	2.24	1	1	2
Canara Robeco Gilt Advantage Fund-Growth	Bond INR Government	1.59					
Kotak FMP Series 37-Growth	Bond INR	1.55					
Religare Active Income Fund-Growth	Bond INR	1.53	8.82	1.13	3	1	3
IDFC Govt Sec Fund-Investment Plan-Plan A-Growth	Bond INR Government	1.50	7.74	1.91	4	1	4
IDFC Govt Sec Fund-Provident Fund Plan-Growth	Bond INR Government	1.49	7.64	1.94	Leader	1	Leader
JM G-Sec Fund-Regular Plan-Growth Option	Bond INR Government	0.42	3.75	1.48	Leader	1	Leader
Sundaram Gilt Fund-Appreciation	Bond INR Government	0.35	2.75	1.11	1	2	1
Sundaram Bond Saver-Growth	Bond INR	0.27	4.82	1.84	3	2	3
Birla Sun Life Medium Term Plan-Retail-Growth	Bond INR	0.08	7.74	0.93			
IDFC Govt Sec Fund-Short Term-Plan A-Growth	Bond INR Government	0.05	2.25	0.50	1	3	1
ICICI Prudential MIP 5-Growth	Bond INR	-0.01					
Sundaram Captl. Prot. Orntd Fd 3 Yrs (Sr 3)-Growth	Bond INR	-0.20					
Peerless Income Plus Fund-Growth	Bond INR	-0.20	4.48	1.87			
Franklin Templeton Fixed Tenure Fd-XII B-3Y-Growth	Bond INR	-0.75	2.77	3.28			
Franklin Templeton Fixed Tenure Fd-XII A-3Y-Growth	Bond INR	-0.79	2.64	3.69			

Source: Lipper, a Thomson Reuters company

3B Year to August 2011 (in INR Terms)

Fund Name	Lipper Global Classification	Growth YTD %	Growth 3 Y %	Ann. S.D. 3 Y Value	Lipper Leaders (3 years) Consistent Return	Lipper Leaders (3 years) Preser-vation	Lipper Leaders (3 years) Total Return
Sahara Short Term Bond Fund-Growth	Bond INR	10.67					
Sundaram Select Debt-Short Term Asset Plan-App	Bond INR	9.86	18.22	2.29	2	Leader	3
Tata Fixed Income Portfolio Fund-Sch C3-Growth	Bond INR	9.76	25.78	3.03	Leader	Leader	Leader
Peerless Short Term Fund-Growth	Bond INR	9.38					
BNP Paribas Fixed Term Fd-16-A-Regular-Growth	Bond INR	8.30					
UTI Bond Fund-Growth	Bond INR	7.25	26.41	8.43	Leader	1	Leader
Escorts Short Term Debt Fund-Growth	Bond INR	7.05	25.94	0.72	Leader	Leader	Leader
Kotak FMP 18M Series 5-Growth	Bond INR	7.01					
HDFC Floating Rate Income Fund-Long Term Pl-Growth	Bond INR	6.75	25.53	0.91	Leader	Leader	Leader
LIC NOMURA MF Bond Fund-Growth	Bond INR	6.72	29.76	5.60	Leader	2	Leader
Tata Gilt Mid Term Fund-Growth	Bond INR Government	2.37					
ICICI Prudential Gilt Fund-Invest Pl-PF Opt-Growth	Bond INR Government	2.29	48.53	13.54	Leader	1	Leader
Mirae Asset Gilt Fund-Investment Plan-Reg Growth	Bond INR Government	2.27					
Fidelity Flexi Gilt Fund-Growth	Bond INR Government	2.18	21.59	10.36	3	1	3
DSP BlackRock Government Securities Fund-Growth	Bond INR Government	2.15	35.57	10.40	Leader	1	Leader
Mirae Asset Gilt Fund-Savings Plan-Regular Growth	Bond INR Government	2.14					
Sundaram Gilt Fund-Appreciation	Bond INR Government	1.83	8.71	1.75	1	2	1
Franklin Templeton Fixed Tenure Fd-XII B-3Y-Growth	Bond INR	1.46					
IDFC Govt Sec Fund-Short Term-Plan A-Growth	Bond INR Government	1.10	8.94	0.55	1	3	1
Franklin Templeton Fixed Tenure Fd-XII A-3Y-Growth	Bond INR	0.99					

Source: Lipper, a Thomson Reuters company

LIPPER Lipper Leaders key Highest 5 4 3 2 1 Lowest

Appendix 4 Sector-wise Performance of Funds Registered for Sale in India, by Lipper Global Classifications (% Growth in INR)

LGC Average	1M 31/07/2011 To 31/08/2011	YTD 31/12/2010 To 31/08/2011	1Y 31/08/2010 To 31/08/2011	3Y 31/08/2008 To 31/08/2011	5Y 31/08/2006 To 31/08/2011
Commodities (7)	9.73	-8.23	13.42	0.00	0.00
Equity China (2)	-8.59	-9.59	1.40	0.00	0.00
Equity Emerging Mkts Global (4)	-8.79	-11.36	0.83	-2.86	0.00
Equity Emerging Mkts Other (1)	-8.61	-14.13	0.00	0.00	0.00
Equity Global (24)	-5.64	-8.93	5.84	6.69	31.42
Equity Greater China (1)	-7.20	-7.20	6.35	0.00	0.00
Equity India (708)	-7.88	-15.63	-9.95	25.84	55.48
Equity Sector Banks&Financial (16)	-12.47	-18.77	-12.71	65.95	162.65
Equity Sector General Industry (2)	-10.10	-24.05	-24.28	1.17	37.61
Equity Sector Gold&Prec Metals (6)	8.11	1.28	16.49	83.25	0.00
Equity Sector Information Tech (9)	-12.83	-24.02	-10.38	17.41	23.19
Equity Sector Natural Resource (7)	-5.52	-10.12	3.37	25.46	0.00
Equity Sector Non Cyclical Con (6)	-1.78	7.56	14.63	97.99	115.00
Equity Sector Pharma&Health (7)	-7.35	-6.26	8.99	81.15	116.50
Equity Sector Real Est Global (4)	-1.99	0.23	4.12	5.31	0.00
Equity Sector Utilities (3)	-10.86	-29.75	-30.18	-0.80	111.00
Unclassified (14)	-3.17	0.74	6.67	25.31	0.00
Absolute Return Other (4)	0.39	4.50	6.99	16.68	0.00
Mixed Asset INR Aggressive (90)	-3.24	-3.83	0.55	24.96	52.05
Money Market INR (637)	0.41	2.88	4.01	10.25	20.85
Bond INR Government (161)	1.03	3.54	5.30	20.00	34.87
Mixed Asset INR Conservative (300)	-0.75	0.93	3.59	23.57	40.42
Bond INR (1903)	0.74	4.60	5.92	16.57	30.53
Mixed Asset INR Balanced (26)	-2.44	-3.14	1.84	38.26	65.38
Mixed Asset INR Flexible (26)	-6.96	-14.22	-8.18	15.23	52.05
Equity Sector Tech Media&Tele (3)	-6.79	-16.21	-15.22	8.22	40.85
Equity Sector Cyc Cons Gds&Svc (2)	-5.83	-11.63	-9.01	90.38	0.00
Equity ASEAN (1)	-6.41	0.00	0.00	0.00	0.00
Grand Total (3974)	**-1.30**	**-1.55**	**1.09**	**19.46**	**39.60**

Source: Lipper, a Thomson Reuters company