Note: Whenever, returns for the scheme are shown in the report, they are for the growth option of the scheme.
Indian benchmark indices have been consolidating after touching all-time high levels in the first week of August. However, broader markets continued their upward trajectory as midcaps and small caps continued to outperform large caps.

The market has undergone a round of healthy corrective consolidation in August 2017. It has displayed resilience in the face of turbulent global cues and absorbed a range of adverse events like rising geopolitical tensions and FIIs outflows.

The recent quarter was subdued with Sensex companies reporting a tepid Q1FY18 primarily depicting the transition period towards GST. Majority of the companies witnessed muted business activity amid destocking of channel inventory and emerging clarity on input tax credits. Going forward, with a smooth transition by domestic businesses to GST amid greater emphasis over NPA resolution for the Indian banking system and a pick-up in infra activity, we revise our Sensex EPS estimates in FY17-19E. We expect robust earnings recovery for Sensex companies and pencil in a double digit earnings CAGR of 15.7% in FY17-19E.

GDP for Q1FY18 came in at a weak 5.7% vs 6.1% last quarter. The economy is passing through a period of sluggishness as it faced two jolts back-to-back, first demonetisation and now GST. Business sentiments remain robust, however, and output should normalise once the system stabilises over the next few months.

Unprecedented inflows into equity markets in domestic mutual funds and increased equity allocation from EPFO and rising NPS corpus is proving ample liquidity to the markets and are driving factors behind the recent rally. The outlook for liquidity remains strong.

We reiterate our positive stance and conclude that the current corrective phase forms part of the larger degree uptrend. Going forward, we expect the index to conclude the ongoing secondary consolidation and resume its primary uptrend to challenge its recent life-time high of 10137 in coming months. Hence, it presents an incremental opportunity with favourable risk/reward to enter quality stocks in a staggered manner to ride the next up move within the larger degree uptrend.

Our positive stance on equity continues to backed by expectations of a pick-up in earnings and continuity of fund flows. Subdued earnings, over the last four years, have led index valuations to inch up. However, we believe the impact of one-offs like demonetisation & GST on corporate earnings will go through in the first half of FY18. From the second half onwards, earnings growth may accelerate.

However, given the sharp rally in recent months, it is better to avoid lumpsum investment and continue with the staggered buying approach.
Debt Markets

Update

- Fixed income markets have been in a range during August with yields across government securities and corporate bonds trading in a narrow range. Benchmark 10 year G-sec yields hovered around 6.5% while corporate bonds of three, five years maturity traded at ~7.1%, 7.3%, respectively
- CPI inflation for August jumped to 3.36% YoY from the previous month’s 2.36% YoY reading. Food inflation contributed heavily to the rise in headline inflation, growing on a yearly as well as sequential basis. The headline CPI inflation is averaging ~2.50%, thus far in FY18 and is well within RBI's projected band of 2.00-3.50% for H1FY18. Barring major negative surprises in the core print and with continued support from cereals (base effect and higher production) and pulses (good harvest), the target is likely to be comfortably met
- Globally, concerns over a rise in sovereign yields have subsided with inflation panning out lower-than-expected. US 10 year G-sec yield has drifted down slowly by more than 20 bps to 2.1% from 2.3%. Subdued global sovereign yields along with a stable currency are attracting foreign inflows into the Indian market
- FIIs have already exhausted their debt investment limit in both government securities and corporate bonds indicating their positive stance on bond yields

Outlook

- RBI is expected to maintain status quo on benchmark policy rates in its October 2017 policy meeting. The central bank is likely to wait to see the impact of GST and impact of erratic monsoons on food grain production. Although RBI’s medium term target is likely to be achieved, market participants are likely to take cues from its guidance and outlook
- The India debt market is almost at the end of the interest rate cycle, which started in January 2015 with repo rate at 8%. RBI has since then cut benchmark rates by 200 bps. The 10 year G-sec has corrected from 9.1% in April 2014 to 6.45% currently. Therefore, room for further downside remains narrow
- System liquidity continues to remain in surplus leading to persistent lower yields at the shorter end of the yield curve. With bank credit growth remaining subdued, we expect rates to remain low in near term
- G-sec funds or duration funds should be avoided. Credit opportunities funds with stable asset quality offer the best investment opportunity in the current market environment
MF industry synopsis

- Record inflows into mutual funds in the last three years have led to a robust increase in overall assets managed by them. Total assets managed by mutual funds touched a record high of ₹20.59 lakh crore in August 2017, up ~3.12% from July 2017 level of ₹19.97 lakh crore. This represented a ~31.74% increase YoY and an ~17.4% increase from March 2017. Of the total MF corpus, ~42% was held by income funds and ~31% by equity and ELSS funds.

- According to Amfi data, inflows through systematic investment plans (SIPs) for August were at ~ ₹5200 crore, up from ~ ₹4950 crore in the previous month. SIP inflows averaged ~ ₹3600 crore/month in FY17.

- In the trailing 12 months, the mutual fund industry saw a net inflow of ~ ₹3.07 lakh crore. Out of the total net inflow, ~ ₹99441 crore came into equity and ELSS funds, about 32%.

- Despite volatility in equity markets, inflows in equity mutual funds have remained steady. August saw a net inflow of ~ ₹28023 crore in equity and equity-oriented funds, which is a multi-year high. This trend reflects the increasing participation of investors in mutual funds and using correction as an opportunity to deploy capital.

Exhibit 1: Boosted by strong inflows into income and equity schemes, August saw ₹61701 crore net inflow

Source: AMFI

Exhibit 2: AUM of Top 10 AMCs

Source: ACE MF

Exhibit 3: Fraklin Templeton has highest proportion of equity AUM as percentage of its AUM

Source: ACE MF. Data as on August 2017

Exhibit 4: Within retail category, equity funds witness significant inflows in FY17.

Source: ACE MF. Data as on March 2017
MF Category Analysis

Equity funds

- Banking funds slipped slightly among sectoral/thematic funds as infrastructure funds emerged as the best performing category of equity funds. These categories as well as FMCG funds continued to outperform information technology (IT) and pharma funds by wide margins. Pharma funds were in the red to the tune of ~13%.
- In terms of market cap-based funds, midcap funds continued their dominance over large cap funds. Overall, midcap funds were among the best performing equity fund categories on a one year basis.
- Structural industry-wide problems continue to plague pharma and technology funds. Pharma stocks delivered a severely disappointing Q1FY18 amid persistent pressure over pricing, compliance issues and a fear of shrinking growth in the large US market. H1B visa issues and US government action fears persisted on overhangs over technology stocks and consequently, technology funds.

Exhibit 5: Banking funds outperform other categories while technology, pharma funds continue to be under pressure (returns as on September 15, 2017)

Exhibit 6: Strong flows continue into equity and ELSS schemes

Exhibit 7: Robust inflow in equity funds pushes up AUM to record high of ₹6.4 lakh crore

Reshuffling of portfolio was seen post Union Budget with beaten down sectors rallying sharply outperforming defensive sectors.
**Equity diversified funds**

- Equity diversified funds have witnessed robust growth over the last three years, with AUM within each sub-category rising substantially. In the last three years in FY14-17, the AUM of large cap funds rose 138%, multi cap funds AUM rose 109% and mid cap funds AUM rose 235%.

- Over this period, while all three sub-categories have delivered a strong performance (Exhibit 8), midcap funds have done exceedingly well and outperformed. This is reflected in the trend of broader indices outperforming bellwether indices over this time frame. However, large cap funds have reversed that trend at some points during the past few months.

- Multicap funds are relatively more market cap agnostic and hold positions in a wider range of companies than pure large cap funds or pure midcap/small cap funds. Multicap funds generally hold around 50-60% of their portfolio in large cap stocks and 30-40% in midcap stocks. They have benefited by capturing a part of the midcap rally during this period and, thus, outperformed pure large cap funds.

- In the present market scenario, bottom up stock picking across the market segment is more important than allocation to a particular segment or sub sector. Multicap funds offer fund managers flexibility to allocate funds across all market segment and are, therefore, relatively better placed.

**Exhibit 8: Robust AUM growth across all equity diversified fund sub-categories from 2014**

![Graph showing AUM growth from 2012 to 2017]

**Source:** ACE MF

**Recommended funds**

**Large cap**
- Birla Sunlife Frontline Equity
- ICICI Prudential Focused Bluechip Equity
- SBI Bluechip Fund

**Multi cap**
- Franklin India Prima Plus Fund
- Kotak Select Focus Fund

**Midcap**
- HDFC Mid-Cap Opportunities Fund
- Franklin India Smaller Companies Fund

*(Refer to www.icicidirect.com for details of the fund)*
Equity Infrastructure Funds

- Government spending and focused push towards sectors such as roads, railways, housing and power could lead to greater opportunities to infrastructure players, apart from the benefit of increased transparency in the system.
- A number of infrastructure related government schemes and the introduction of new regulatory measures are expected to help organised players in the infrastructure space over the medium to long term, placing infrastructure and ancillary stocks on an attractive footing.

Preferred Picks
- Aditya Birla SL Infrastructure Fund
- L&T Infrastructure Fund
- Reliance Diversified Power Sector Fund

Equity Banking Funds

- Q1FY18 results showed that operating earnings increased decently. However, there was no respite from asset quality concerns especially for PSU banks. Of late, enhanced credit quality concerns and related haircuts and credit costs apart from slower credit growth have put the sector under some stress. However, increase in gross NPA of private sector banks in absolute terms was lower than previous quarters, giving some respite with further support expected from treasury gains and sale of non-core assets.
- We remain optimistic on the banking sector keeping in mind the anticipated pick-up in credit offtake. Steady margins and peaking out of the NPA cycle is expected to further aid profitability.
- From a long term point of view, the continued government push on financial inclusion is structurally positive for the financial industry. Demonetisation-led reduction in the black economy, enhanced awareness and increased usage of digital or electronic payments will be positives for the banking industry from an operating cost perspective.

Preferred Picks
- ICICI Prudential Banking & Financial Services
- Reliance Banking Fund
- UTI Banking Sector Fund

Equity FMCG Funds

- Several companies from the consumer-oriented and FMCG space witnessed GST led destocking impact in Q1FY18. This came on the back of an improvement due to receding demonetisation-led disruption. Many companies had reported decent earnings growth with an improvement in margins and sequential improvement in volume growth in Q4FY17.
- We maintain our positive outlook on the FMCG sector backed by the rural consumption revival led by largely normal monsoons and the government’s focus on increasing farm incomes. We also expect GST implementation to eventually provide a big boost to FMCG companies, particularly those present in personal care and household categories.

Preferred Picks
- ICICI Prudential FMCG Fund
- SBI FMCG Fund
Equity Pharma funds

- Q1FY18 was quite poor for pharmaceutical companies on the back of concerns such as destocking necessitated by GST implementation, higher-than-expected price pressure in the US generic space, high base effect and rupee appreciation. Leading players in the US market continue to face threats from price erosion borne out of intense competition and client consolidation. Besides, other issues in the US like pricing probe by the Department of Justice, adapting to the bidding process and imposition of border tax on imported drugs are other near term overhangs. An additional headwind for the sector has emerged in the form of channel disturbances due to GST implementation. Pharma being a largely export-oriented sector, faces additional pressure from emergence of a stronger rupee

- However, despite these apprehensions, in the long term, we remain optimistic about the sector’s prospects on the back of attractive valuations and earnings momentum pick-up led by incremental product launches in the US besides normalising Indian formulations growth

Preferred Picks
- Reliance Pharma Fund Refer to www.icicidirect.com for details of the fund
- SBI Pharma Fund
- UTI-Pharma & Healthcare

Equity Technology Funds

- Technology companies report muted results as expected. Subdued corporate results demonstrate the pain in the technology sector. Future expectations would be centred around management guidance. In the short-term, persistent rupee strength, wage hikes and visa costs would continue to weigh on the sector

- We maintain our neutral stance on the sector as the industry faces challenges related to US immigration rules and growing protectionism around the world leading to marginal IT spending by companies. The industry would continue to witness pricing pressure in its traditional business, which is currently unable to offset newer revenue streams from digital areas that enjoys higher margins

Preferred Picks
- ICICI Prudential Technology Fund Refer to www.icicidirect.com for details of the fund
- DSPBR Technology fund
Traded volumes should be the major criterion that is used while deciding on investment in ETFs. Higher volumes ensure lower spread and better pricing to investors...

Tracking error, though it should be considered, is not the deciding factor as variation among funds is not huge...

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**Exchange Traded Funds (ETF)**

- In India, three kinds of ETFs are available: Equity index ETFs, liquid ETFs and gold ETFs.
- An equity index ETF tracks a particular equity index such as the BSE Sensex, NSE Nifty, Nifty Junior, etc.
- An equity index ETF scores higher than index funds on several grounds. The expense of investing in ETFs is relatively less by 0.50-0.75% in comparison to an index fund. The expense ratio for equity ETFs is in the range of 0.05-0.25% while for index funds the expense ratio varies in the range of 0.50-1.25%. However, brokerage (which varies) is applicable on ETFs while there are no entry loads now on index funds.
- Tracking error, which explains extent of deviation of returns from the underlying index, is usually low in ETFs as it tracks the equity index on a real time basis whereas it is done only once in a day for index funds.
- ETFs also provide liquidity as they are traded on stock exchanges and investors may subscribe or redeem them even on an intra-day basis. This is unavailable in index funds, which are subscribed/redeemed only on a closing NAV basis.
- In August 2015, the Labour Ministry decided to invest 5% of Employees’ Provident Fund Organisation’s (EPFO) incremental corpus in ETFs. The investment in equities is split between the Nifty ETF (75%) and Sensex ETFs 25%. EPFO chose two ETF schemes of SBI Mutual Fund—SBI ETF Nifty and SBI Sensex ETF.
- In 2016 the EPFO hiked the limit from 5% to 10% of its incremental corpus of investment in equities, which was further increased to 15% of its incremental corpus in May 2017. This is a positive move since retirement savings, which are long term in nature, will be invested in equities that have the potential to generate higher returns. So far, EPFO has invested a total of ₹22,000 crore in exchange traded funds as of April 2017.
- Over 400 ETFs are traded globally. ETFs are transparent and cost efficient. The decision on which ETF to buy should be largely governed by the decision on getting exposure to that asset class.

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**Exhibit 9: Sensex/Nifty ETFs receiving consistently higher inflows…**

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**Exhibit 10: …leading to consistent increase in AUM**

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Source: AMFI, ICICIdirect.com Research
Balanced funds

- Balanced funds category continued to receive significant flows, with the average monthly inflow (net) for 12 months to August 2017 amounting to ~₹ 5600 crore
- The AUM of balanced funds has witnessed a stellar increase during this period, more than doubling to ₹ 128320 crore in August 2017 from ₹ 53881 crore in the year ago period
- Over the last two or three years, the balanced space has emerged as one of the fastest growing equity categories and offers an ideal gateway for first time retail equity investors. In FY17, balanced funds AUM growth outpaced all other categories bar non-gold ETFs
- Balanced funds are hybrid funds. More than 65% of the overall portfolio is invested in equities. Hence, as per provisions of the Income Tax Act, 1961, any capital gains over a year become tax free. Also, dividends declared by funds are tax free in the hands of the investor.
- In case one separately invests 35% of one’s investible corpus in a debt fund, the same will be subject to higher taxation. However, if the whole corpus is invested in balanced funds, 100% shall have lower taxation applicable as mentioned above. Thus, balanced funds offer the benefit of equity taxation on debt component.
- After a sharp rally in equity markets, the funds can be a preferred investment avenue as the debt proportion serves to protect on intermediate relief rallies or the downturn while providing minimum 65% participation on further upsides.

Exhibit 11: Strong inflow into balanced funds

Exhibit 12: YoY 138% growth in AUM of balanced funds

Preferred Picks

- ICICI Prudential Balanced Fund
- HDFC Balanced Fund
- Birla Sun Life Balanced 95 Fund
- DSP Blackrock Balanced Fund
- L&T India Prudence Fund

(Refer to www.icicidirect.com for details of the fund)
Monthly Income Plans (MIP)

- An MIP offers investors an option to invest in debt with some participation in equity, ≈10-25% of the portfolio. They are suitable for investors who seek higher returns from a debt portfolio and are comfortable taking nominal risk. The debt corpus of the portfolio provides regular income while the equity portion of the fund provides alpha. However, returns can also get eroded by a fall in equities.
- MIPs can be classified into aggressive MIP and conservative MIP based on its equity allocation. Risk averse investors should invest in MIPs with lower equity allocation to avoid capital erosion.
- The change in taxation announced in the Union Budget 2014, shall be applicable to MIP funds (refer to debt funds section for details).

Preferred Picks

- Aditya Birla Sun Life MIP II - Wealth 25 Plan
- ICICI Prudential MIP 25
- SBI Magnum MIP Fund
- SBI Magnum MIP Floater Fund

(Refer www.icicidirect.com for details of the fund)

Arbitrage Funds

- Arbitrage funds seek to exploit market inefficiencies that get manifested as mispricing in the cash (stock) and derivative markets.
- Availability of arbitrage positions depends very much on the market scenario. A directional movement in the broader index attracts speculators in the market while cost of funding makes futures positions biased.
- Arbitrage funds are classified as equity funds as they invest into equity share and equity derivative instruments. Since these are classified as equity funds for taxation, dividends declared by the funds are tax free. No capital gains tax will be applicable if they are sold after a year.
- These funds can be looked upon as an alternative to liquid funds. However, for these funds, returns totally depend on arbitrage opportunities available at a particular point of time and investors should consider reviewing the same before investing. Returns of arbitrage funds are non-linear and, therefore, unsuitable for investors who want consistent return across time period.
- Arbitrage funds should be used as a liquid investment and should not be a major part of the investor’s portfolio. A range bound market does not give ample room to create arbitrage positions.

Preferred Picks

- ICICI Prudential Equity - Arbitrage Fund – Regular
- IDFC Arbitrage Fund - (Regular)
- Kotak Equity Arbitrage Fund
- SBI Arbitrage Opportunities Fund

(Refer to www.icicidirect.com for details of the fund)
Debt funds

Benchmark 10 year G-Sec has witnessed yields softening by ~45-50 bps since the end of April

Interest rates moved up across G-Sec and corporate bond category

Exhibit 13: Category average returns

Source: ACE MF, ICICIdirect.com Research

Note: Returns as on September 15, 2017; All returns are compounded annualised

Exhibit 14: G-sec yield curve

Source: Bloomberg, ICICIdirect.com Research

Exhibit 15: Corporate bond curve

Source: Bloomberg, ICICIdirect.com Research
Liquid Funds

- Yields on money market instruments viz. less than one year CDs and CPs in which liquid fund predominantly invest, remain stable at lower levels due to ample liquidity.
- In an uncertain environment, liquid funds remain well placed to park money with low volatility.
- For less than a year, individuals in the higher tax bracket should opt for dividend option as the dividend distribution tax @ 28.325% is marginally lower. Also, though the tax arbitrage has reduced, they still earn better pre-tax returns over bank savings (3-4%) and current accounts (0-3%).
- Changes in taxation rules announced in Union Budget 2014 are also applicable to liquid funds, as post tax returns in less than a three-year period get reduced for individuals in the higher tax bracket (30% tax slab) and for corporate.

Exhibit 16: Call rates below repo rate

Exhibit 17: CP/CD yields

Exhibit 18: Flows into liquid funds remain volatile on institutional activity

Exhibit 19: AUM remains healthy

Preferred Picks

- HDFC Cash Management Fund - Savings Plan
- SBI Magnum InstaCash
- Reliance Liquid Fund - Treasury Plan

(Refer to www.icicidirect.com for details of the fund)
RBI eased policy rates by 25 bps while maintaining neutral stance in its August 2 policy meet. This followed three consecutive months of lower than anticipated inflation readings, seemingly bottoming out at 1.54% headline CPI in June. Policy meeting minutes released later were somewhat hawkish with regards to future inflation path, highlighting aspects such as farm loan waiver linked fiscal indiscipline risk, firming household inflation expectations, rising vegetable prices and receding base effect as upside risks. Further CPI readings in July (2.36% YoY) and August (3.36% YoY) displayed a rebound from June levels led by rise in food prices and percolation effects of GST and HRA implementation for government employees. Core inflation rise during this time could provide cause for the RBI to maintain status quo on interest rates at its October meeting.

The RBI has projected inflation to range from 2.0-3.5% for H1FY18 and from 3.5-4.5% for H2FY18. The benchmark 10-year G-Sec yield witnessed some pressure over the last six weeks, climbing by ~15 bps from end-July levels to ~6.59% (September 14).

- Dynamic bond funds or short-term funds with some dynamic allocation to G-Sec should be preferred over pure G-Sec funds or long-term duration funds
- Short-term debt funds remain a stable performing category, especially in the current volatile environment. Credit funds with reasonable credit quality should be preferred over an aggressive credit fund

Exhibit 20: Income funds witness significant outflow in June

Exhibit 21: AUM remains stable on consistent inflows

Source: AMFI, ICICIdirect.com Research

Recommended funds

Ultra Short Term Funds
- Birla Sun Life Savings Fund
- ICICI Prudential Flexible income

Short Term Funds
- Birla Sunlife short term fund
- HDFC Short Term Fund
- ICICI Pru Short Term Plan

Short Term Funds – Credit opportunities
- Birla Sunlife Short Term opportunities term
- HDFC Corporate debt opportunities
- ICICI Prudential Regular Savings

Long term/Dynamic
- Birla Sunlife income plus
- ICICI Prudential Dynamic Bond Fund
- IDFC dynamic bond fund

(Refer [www.icicidirect.com](http://www.icicidirect.com) for details of the fund)
Gilt Funds

- Yield on the benchmark 10 year government bond had hardened appreciably post the shift in RBI's monetary policy stance from 'accommodative to 'neutral'. Softer than expected inflation prints in April, May and June combined with strong institutional flows into debt markets combined to push down benchmark 10 year G-sec yield by ~45-50 points in the period from May-July. However, the markets were not overly enthused by August rate cut as it was widely expected. A significant rebound in July and August CPI readings was followed by rise in yields by ~15 bps to 6.6%. The yield at 6.53% currently is up ~9 bps YTD. It briefly tested 6.95% at end-April.
- RBI eased policy rates by 25 bps while maintaining neutral stance in its August 2 policy meet. This followed three consecutive months of lower than anticipated inflation readings, seemingly bottoming out at 1.54% headline CPI in June. Policy meeting minutes released later were somewhat hawkish with regards to future inflation path, highlighting aspects such as farm loan waiver linked fiscal indiscipline risk, firming household inflation expectations, rising vegetable prices and receding base effect as upside risks. Further CPI readings in July (2.36%YoY) and August (3.36% YoY) displayed a rebound from June levels led by rise in food prices and percolation effects of GST and HRA implementation for government employees. Core inflation rise during this time could provide cause for the RBI to maintain status quo on interest rates at its October meeting. The RBI has projected inflation to range from 2.0-3.5% for H1FY18 and from 3.5-4.5% for H2FY18.
- Allocation to pure G-Sec or duration funds should be avoided given their historical outperformance and G-Sec yield trading at the lower end of its historical range.
- Historically, it has been observed that years of good returns in G-sec are followed by lower returns.

Allocation to pure G-Sec or duration funds should be avoided given their historical outperformance and G-sec yield trading at the lower end of its historical range. Crisil 10 year Gilt index has delivered 38% return in the last three years. It is likely the return will be significantly lower, going forward.

Exhibit 22: Historical trend in return from G-Sec indicates, going forward, returns likely to be lower

Source: ACE MF

Preferred Picks

- Aditya Birla Sun Life Gilt Plus – PF Plan
- ICICI Pru LT Gilt Fund – PF Option
(Refer to www.icicidirect.com for details of the fund)
Gold: Under the spotlight due to geopolitical worries

- Global prices had a positive run in August. Starting from a base of ~US$1268 per ounce, they broke out towards US$1300 per ounce towards the end of August and ended the month sharply higher at ~US$1321 per ounce, a 2017 high. The metal gained further in early September, touching ~US$1349 per ounce on September 7 before consolidating towards ~US$1321 per ounce on September 15. This represents a ~14.6% YTD return.

- The strong rupee appreciation during this period of ~5.7% has prevented similar gains in Indian gold prices. Domestic rise has been limited to just ~7.7% YTD as of September 14.

- Investor interest in the metal spiked during August amid rising geopolitical tensions surrounding North Korea and the US. Safe haven buying combined with weakness in the US Dollar Index lent support to gold prices.

- Gold has historically been looked at as a relatively risk-free asset. Its price movement both in India and globally, is impacted by any actual or perceived risk build-up on economic, political or natural fronts. The US Dollar Index slid for most of August and further still in September, touching a low of 91.12 on September 14. Dollar softness leads to a rise in gold prices as the metal is denominated in that currency.

- Marginal easing in geopolitical tensions seem to have capped the downside for gold prices. However, any deterioration in international equations could spark further strength.

- The Fed last hiked rates in June and held fire in July, with the outcome of the next meeting on September 20 being the immediate event to watch with regards to gold price direction. The pace of further hikes could be gradual in the face of consistent below expectation readings of US inflation data.

- The medium-term outlook would remain largely anchored to developments on the Fed front. The markets are discounting the three expected rate hikes in 2017. Any deviation from this path, whether on the back of difficulty in achieving US medium term inflation target or otherwise, could affect prices.
Model Portfolios

Equity funds model portfolio

Investors who are wary of investing directly into equities can still get returns almost as good as equity markets through the mutual fund route. We have designed three mutual fund model portfolios, namely, conservative, moderate and aggressive mutual fund portfolios. These portfolios have been designed keeping in mind various key parameters like investment horizon, investment objective, scheme ratings, and fund management.

Exhibit 25: Equity model portfolio

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Source: ICICIdirect.com Research

Exhibit 26: Model portfolio performance: One year performance (as on August 31, 2017)

Source: Crisil Fund Analyser, ICICIdirect.com Research
Debt funds model portfolio

We have designed three different mutual fund model portfolios for different investment duration viz. less than six months, six months to one year and above one year. These portfolios have been designed keeping in mind various key parameters like investment horizon, interest rate scenarios, credit quality of the portfolio and fund management, etc.

Exhibit 27: Debt funds model portfolio

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<td>Birla SL Savings Fund</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>ICICI Pru Flexible Income Plan</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Short Term Debt Funds</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Axis Regular Savings Fund</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Birla Sunlife Short Term Fund</td>
<td>20</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Birla Sunlife Short Term Opportunies Fund</td>
<td>20</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Reliance Regular Savings Fund</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HDFC Short Term Opportunities Fund</td>
<td>20</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>ICICI Prudential Regular Savings</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICICI Prudential Short Term Fund</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IDFC SSI Short Term</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UTI Short Term Income Fund</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HDFC Corporate Debt opportunities fund</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: ICICIdirect.com Research

Exhibit 32: Model portfolio performance: One year performance (as on August 31, 2017)

<table>
<thead>
<tr>
<th>Time Horizon</th>
<th>Portfolio</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-6 Months</td>
<td>8.10</td>
<td>7.20</td>
</tr>
<tr>
<td>6 Months - 1 Year</td>
<td>8.90</td>
<td>8.40</td>
</tr>
<tr>
<td>Above 1yr</td>
<td>8.80</td>
<td>9.00</td>
</tr>
</tbody>
</table>

Source: Crisil Fund Analyser, ICICIdirect.com Research

*Index: 0-6 month’s portfolio – Crisil Liquid Fund Index; 6 months-1 year – Blended Index with 50% weight to Crisil Liquid Index, 50% weight to Crisil Short Term Index; Above 1 year: Crisil Short Term Index
## Top Picks

### Exhibit 33: Category wise top picks

#### Equity Funds & Equity-oriented Funds

<table>
<thead>
<tr>
<th>Category</th>
<th>Top Picks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Largecaps</td>
<td>Birla Sun life Frontline Equity Fund, ICICI Pru Focused Bluechip Fund, SBI Bluechip Fund</td>
</tr>
<tr>
<td>Midcaps</td>
<td>HDFC Midcap Opportunities Fund, Franklin India Smaller Companies Fund</td>
</tr>
<tr>
<td>Multicaps</td>
<td>Franklin India Prima Plus Fund, Kotak Select Focus Fund</td>
</tr>
<tr>
<td>ELSS</td>
<td>Axis Long Term Equity Fund, ICICI Pru Tax Plan, Reliance Tax Saver Fund, Franklin India Taxshield</td>
</tr>
<tr>
<td>Balanced</td>
<td>HDFC Balanced Fund, ICICI Pru Balanced Fund, Birla Sun Life Balanced 95 Fund, DSP Blackrock Balanced Fund, L&amp;T India Prudence Fund</td>
</tr>
</tbody>
</table>

#### Debt Funds

<table>
<thead>
<tr>
<th>Subcategory</th>
<th>Top Picks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquid</td>
<td>HDFC Cash Mgmt Saving Plan, ICICI Pru Liquid Plan, Reliance Liquid Treasury Plan</td>
</tr>
<tr>
<td>Ultra Short term</td>
<td>Birla Sunlife Savings Fund, ICICI Pru Flexible Income Plan, UTI Treasury Advantage Fund-Inst</td>
</tr>
<tr>
<td>Short term</td>
<td>Birla SL Short term Fund, HDFC Medium Term opportunities Fund, Kotak Banking and PSU Debt Fund</td>
</tr>
<tr>
<td>Credit Opportunities</td>
<td>Axis Regular Savings Fund, Birla Sun Life Medium Term Plan, L&amp;T Short Term Income Fund</td>
</tr>
<tr>
<td>Income Funds</td>
<td>ICICI Pru Income Fund, Birla SL Income Plus - Regular Plan, IDFC Dynamic Bond Fund</td>
</tr>
</tbody>
</table>

*(Refer [www.icicidirect.com](http://www.icicidirect.com) for details of the fund)*
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