Accumen Wealth Advisors Private Ltd

Monthly market update –7th February, 2018

Dear All,

Please find enclosed our Market Update - as on 7th February 2018 - Overview of major global and domestic events, Asset class performances, Current Market valuations and outlook on Equity and Debt markets.

Our views on the market is summarised below:

EQUITY:

Any sell-off feels exaggerated because of the calm of the past year - The steep correction in stock prices over the past few weeks reflects a partial retracement of the sharp increase in stock prices and multiples over the past 12 months, which is more visible in the mid-cap. Stocks. The mid- and small-cap indices are now already down almost 12% /15% respectively from their peaks and Nifty is down around 6% as on 6th February 2019. In India the sell-off is more focused on the small and mid-cap stocks. Here, there were pockets of excess, both in valuation and even sentiment. These stocks had outperformed the broad market continuously. It was inevitable that we would see a period of distribution and consolidation for these stock

Index	Peak Value	Date of Peak Value	Value as on 06/02/18	Fall from Peak Value	Change (%)
S & P BSE Midcap	18,248	08/01/18	16,281	1,966	-12.08
S & P BSE Small Cap	20,047	15/01/18	17,392	2,655	-15.26
Sensex	36,283	29/01/18	34,196	2,087	-6.1
Nifty	11,130	29/01/18	10,498	632	-6.0

Transition from PE Multiples to Earnings - The principal risk to equity prices remains from the fact that prices have rallied ahead of earnings recovery. Lack of private capex, low utilisation in manufacturing units, stressed state of banks' balance sheets, logjam in sectors such as power and real estate, structural issues in IT and regulatory run-ins in pharma are few problems dogging the key sectors. Given these, a euphoric state in stock market was quite misplaced

- The long-term story of India is however still good. We remain convinced that we will see good acceleration in corporate earnings. The goods and services tax has been a positive for the larger corporate entities and their margins. The economy is clearly recovering and multiple real economy data points show the acceleration

- On one hand rising rates will force some PE multiple compressions, but surging earnings should allow markets to move up despite the multiple fade. This transition from PE driven markets to earnings driven market is always tricky and creates volatility. We must be prepared for this. If one does not believe in the earnings story, then they should not remain invested in Equities. The macros do not support further multiple expansion. All the more reason it remains a bottom up stock pickers market

Investors should look at Concentrated Large Cap Mutual Funds and Mid & Small Cap **Oriented Portfolio Management Schemes (PMS) which can create a quality portfolio of 10-15 stocks with a bottom-up approach as its tough to find large no of stocks in the Mid & Small cap space which offers a combination of Low leverage, Attractive Valuations and High earnings growth (therefore difficult to take exposure to Mid & Small Caps through mutual funds). We would suggest clients to maintain their current allocation to Equities as warranted by their Risk appetite and investment objective. Investors should look at equity allocation with an investment horizon of 3-5 years at least.Investors looking at absolute returns with divergence to the index should look at allocating to UNIFIPMS**

DEBT

RBI Monetary Policy Update as on 3rd October 2017 - The RBI in its 6th Bi- monthly statement for 2017-18 (February 7th, 2017) kept the key policy rates unchanged. As per the Reserve Bank of India (RBI), there are upside risks to inflation; especially from higher oil and other commodity prices, potential increases in minimum support prices (MSP), increase in customs duty on imports in the budget and fiscal slippage. Yet, the MPC chose to stay on hold. Key reason could be its expectation of FY 19 inflation at ~4.5%, despite the near term overshoot expected. Additionally, it also seems to be waiting for more clarity on the MSP mechanism. The stated policy stance was unchanged at "neutral"

- To summarise, bottoming out of Indian inflation, the rising crude, other commodity prices and the global rates would make the central bank cautious in its stance. That said, we do not expect the central bank to embark on a rate hike cycle anytime soon. India's domestic investment and growth revival is nascent, even as global economic activity picks up pace. Accordingly, we expect RBI to hold policy rates over the next six months unless significant upside risks to the MPC's inflation forecast materialise

- Indian sovereign yields have been spiking over the past six months. The budget too added to the uncertainty after it said that the fiscal deficit n the next financial year will be higher that what the market expected. The 10 year benchmark bond yield was 7.53% on 2nd February 2017. The local benchmark now ranks as one of the highest yielding bonds among emerging markets & therefore is attractive to global investors.

We expect the yields to be range bound and recommend Investors to take advantage **of the recent hardening of yields and allocate debt investments to funds with low to medium duration such as Short term funds & Corporate Bond Funds. Investors can also looking at locking in the attractive yields provided by Fixed Maturity Plans (FMPs) investing in AAA / AA rated papers and thus negating any mark to market risk (if held till maturity). Though the 10 yr yields are at attractive levels (7.53%) we believe the risk return trade-offs are in favour of shorter end of the yield curve due to the following factors - 1) Fiscal actions exerting higher influence on inflation, 2) Firmer input prices (oil / commodities) translating into higher core inflation & 3) Faster than expected Interest rates hike in US. We will suggest duration when the dynamics improve.**

Investors can also look at investing in UNIFI Alternate to Debt Portfolio – Various corporate events like buybacks, delisting, mergers, demergers as well as open offers emanating from M&A have varying degrees of information asymmetry resulting in mispricing of the underlying stocks. The portfolio will look at allocating capital to such special situations as well as bonds having credit rating of AA and above. Minimum Capital contribution required is 25 lacs. To benefit from preferential treatment of small shareholders in corporate events the maximum allocation by an investor is restricted to 30 lacs. The target is to generate a post-tax and post expense return of 9%-11% p.a. There is no fixed fee, a 25% profit share which will be charged on 31st March every year over 8% p.a. hurdle rate (return) . Suggested investment horizon 18-24 months. Please feel free to contact us on any clarification on the above.

Some Wise Investment Quotes

“Never invest in a business you can’t understand” and “Beware geeks bearing formulas.” Warren Buffett

"It's not always easy to do what's not popular, but that's where you make your money. Buy stocks that look bad to less careful investors and hang on until their real value is recognized." - JOHN NEFF

“Games are won by players who focus on the playing field -not by those whose eyes are glued to the scoreboard.” —Warren Buffett

"If you don't study any companies, you have the same success buying stocks as you do in a poker game if you bet without looking at your cards." - Peter Lynch

"I will tell you how to become rich. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful.” -Warren Buffet

Global Markets

We were all very fortunate to go through a year like 2017 .But there's a number of different dynamics this year that will make volatility more part of the equation than it has been in quite some time. The 10-year Treasury yields popped above 2.85 percent for the first time since January 2014. U.S. hiring picked up in January and wages rose at the fastest annual pace since the recession ended, as the economy's steady move toward full employment extended into 2018. Equities are being tested by the surge in bond yields, with some fund managers saying 3% U.S. 10-year rates would signal a bond bear market. The level is seen by many stock-watchers as a potential trigger for a correction in equities. Last week's decline for global stocks follows one of the best starts to a year on record amid hopes for ever-expanding corporate profits and growth in the world economy that's broadening. The MSCI All Country World Index tumbled 3.4 percent last week, its biggest such slide since January 2016.

The China Securities Regulatory Commission is asking investors to add to their collateral to avert sharp declines in share prices as the nation's leaders focus on stability in the nation's $8 trillion stock market.

World Equity Markets Performance as on 2nd Feb 2018

Countries	Exchange Name	Index Level	P/E (x)	P/B (x)	Divd Yield (%)	ROE (%)	1 Week (%)	1Month (%)	3Month (%)	6Month (%)	1 Year (%)	YTD (%)
Developed Market												
USA	S&P500	2822	18.2	3.2	1.9	17.6	-0.6	4.7	9.4	13.9	23.7	5.5
Europe	STOXX 600	390	15	1.8	3.5	12.2	-2.7	0.3	-1.4	2.9	7.6	0.1
UK	FTSE 100	7466	14.4	1.9	4.2	13.4	-2.6	-2.4	-1.2	0.7	4.6	-2.9
Germany	DAX	12837	13.3	1.7	3.1	12.6	-3.8	-0.3	-4.5	5.4	10.4	-0.6
France	CAC 40	5386	14.9	1.6	3.3	10.4	-2.6	1.8	-2.3	5.4	12.3	1.4
Japan	Topix	1864	16	1.5	1.8	9.1	-0.8	2.6	3.9	14.1	23.4	2.6
Australia	ASX 200	6121	16.5	2	4.3	12.2	1.2	1	3.2	6.6	8.4	0.9
Singapore	STI INdex	3530	14.4	1.2	3.3	8.7	-1	2.9	4.4	5.4	16	3.7
Hong Kong	Hang Seng	32602	12.7	1.4	3.2	10.9	-1.7	6.8	14.3	18.1	40.6	9.0
Emerging Market												
India	Sensex	31814	20.4	2.9	1.4	14.1	1.7	0.5	1.4	6.3	13.2	19.5
China	Shanghai composite	3349	14.7	1.6	2	10.9	-0.1	-0.5	4.9	3.9	11.5	7.9
Brazil	Bovespa	76618	14.7	1.7	2.8	11.6	4.1	4.4	22.6	19.3	26.3	27.2
Russia	RTS	13584	7.1	0.7	5.3	9.6	1.2	4.9	9.2	1.7	4.6	-7.8
South Africa	Johnanesburg All share	57286	15.8	1.7	3.2	10.9	3.1	3.3	9.6	8.3	11	13.1
Korea	KOSPI	2394	10.3	1.1	1.6	10.6	0.2	1.6	0.1	10.8	17.2	18.2
Mexico	IPC	50481	18.7	2.5	2.2	13.6	0.7	-0.1	0.9	3	5.3	10.6
Phillipines	PCOMP	8311	20.2	2.4	1.5	11.9	1.7	4.1	5.4	9.9	9.1	21.5
Turkey	XU100	103791	8.6	1.3	3.7	14.7	0.9	-5.3	3.1	17	33.2	32.8

Equity Market:

Any sell-off feels exaggerated because of the calm of the past year

The steep correction in stock prices over the past few weeks reflects a partial retracement of the sharp increase in stock prices and multiples over the past 12 months, which is more visible in the mid-cap. Stocks. The mid- and small-cap indices are now already down almost 12% /15% respectively from their peaks and Nifty is down around 6% as on 6th February 2019.

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Source: BSE, NSE

Market experts attributed the following reasons for the slide – 1) Global Market Bonds melt-down due to rising yields in US building in expectation of faster than expected hike of interest rates by Fed due to expectation of rise in inflation post US household earnings data released last Friday. 2) The populist budget, and proposal of 10% tax on Long term capital gains dampening investor sentiments. A 10% tax on long-term capital gains will not derail the long-term India story. The reality is that investors have been lulled into complacency both in India and globally. A 10-15% correction is par for the course in any bull phase. We have not seen that in India for the past 15 months; in America, this is the longest period ever for the markets to not see even a 3 per cent correction. Any sell-off feels exaggerated because of the calm of the past year.

In India the sell-off is more focused on the small and mid-cap stocks. Here, there were pockets of excess, both in valuation and even sentiment. These stocks had outperformed the broad market continuously. It was inevitable that we would see a period of distribution and consolidation for these stocks.

Earnings so far……

The 3QFY18 earnings season has so far been broadly in line with expectations on headline numbers. Of the 33 Nifty companies that have declared their earnings results, 23 have either met or exceeded consensus estimates.

Sales, EBITDA and PAT for the 33 Nifty companies have grown at 13.3%, 9.4% and 14.1%, as against expectations of 14.2%, 9.4% and 11.9%, respectively. (Source: MOSL)

IT has been the surprise pack of the earnings season so far. The outlook for the next fiscal year has been optimistic across the board, with a pick-up in deal wins and technology spending prospects by customers appearing upbeat. Margins performance has been sanguine for the second consecutive quarter, with no disappointments and midcap companies delivering a healthier beat onexpectations.

In BFSI, private banks have reported strong loan growth and stable-to-improving asset quality trends. Margins have compressed for many banks, led by moderation in CASA mix and slower overall deposit growth. Telecom sector continues to post muted performance, impacted by hypercompetition. Cement companies have posted weaker profitability owing to a miss on the realization front.

Market Performance -

The YTD returns as on 2nd Feb 2018 for Nifty, BSE Midcap & BSE Small Cap has been 2.2%, -7% and -7.2% approximately. IT (10.8%), Capital Goods (4.2%) & Bankex (3.7%) have been the key outperformers so far this year as on 2nd Feb 2018 while Realty (7.1%) and Power (-6.4%) were the main laggards.

Flows

After a rare calendar month of net sales in December (of Rs 5,350 cr), Foreign investors have pumped in a whopping $ 3.5 billion (over Rs 22,000 crore) into the country's capital markets in January 2018 in anticipation of better corporate earnings and attractive yields. However, the pace of FPI flows may slow down in the short term due to the Long Term Capital Gains Tax introduced on equity investments . According to the depositories data, Foreign Portfolio Investors (FPIs) infused a net amount of Rs 13,781 crore in equities and Rs 8,473 crore in debt in January - translating into net inflows of Rs 22,254 crore ($ 3.5 billion). A slew of factors such as positive global markets; promising economic numbers back home; better than expected third quarter earnings and IMF's projection to retain the fastest growing economy tag on India in 2018-19 created a favourable investment environment for FPIs . Technology stocks have been the prime beneficiaries of the latest overseas interest in Indian equities . The recent sharp rally in the developed markets - and some emerging economies - prompted FIIs to pile into India's undervalued IT stocks . In the entire 2017, FPIs put in a total Rs 2 lakh crore in equity and debt markets.

Performance of Equity Mutual Funds as on 6th Feb 2018

Equity Funds Category - Average	Absolute Returns (%)						CAGR (%)		
	1W	2W	1M	3M	6M	1Y	2Y	3Y	5Y
Large-Cap	-5.11	-6.28	-3.97	-1.24	3.06	17.98	19.47	8.62	14.89
Mid Cap	-5.66	-8.57	-9.11	-1.96	5.51	20.82	23.70	13.72	22.68
Small Cap	-5.99	-9.25	-9.97	0.55	12.14	30.26	30.58	19.97	29.05
Multi-cap / Opportunities	-5.07	-6.40	-4.72	-1.12	4.19	18.67	21.31	10.99	17.23
Balanced Funds	-3.74	-4.88	-3.64	-1.13	3.25	14.81	18.03	9.79	15.26
Arbitrage Funds	11.63	9.45	6.87	6.27	5.97	5.95	6.25	6.48	7.27
Index									
S&P BSE Sensex	-5.10	-5.38	0.12	1.38	5.79	20.24	17.81	5.99	11.72
Nifty 50	-4.99	-5.28	-0.57	0.44	4.29	19.28	18.34	6.62	11.98
S&P BSE MID CAP	-7.45	-9.94	-9.90	-3.03	5.47	21.22	25.43	15.76	18.84
S&P BSE Small Cap	-7.85	-11.50	-11.74	-2.90	9.20	28.45	28.19	16.21	20.12

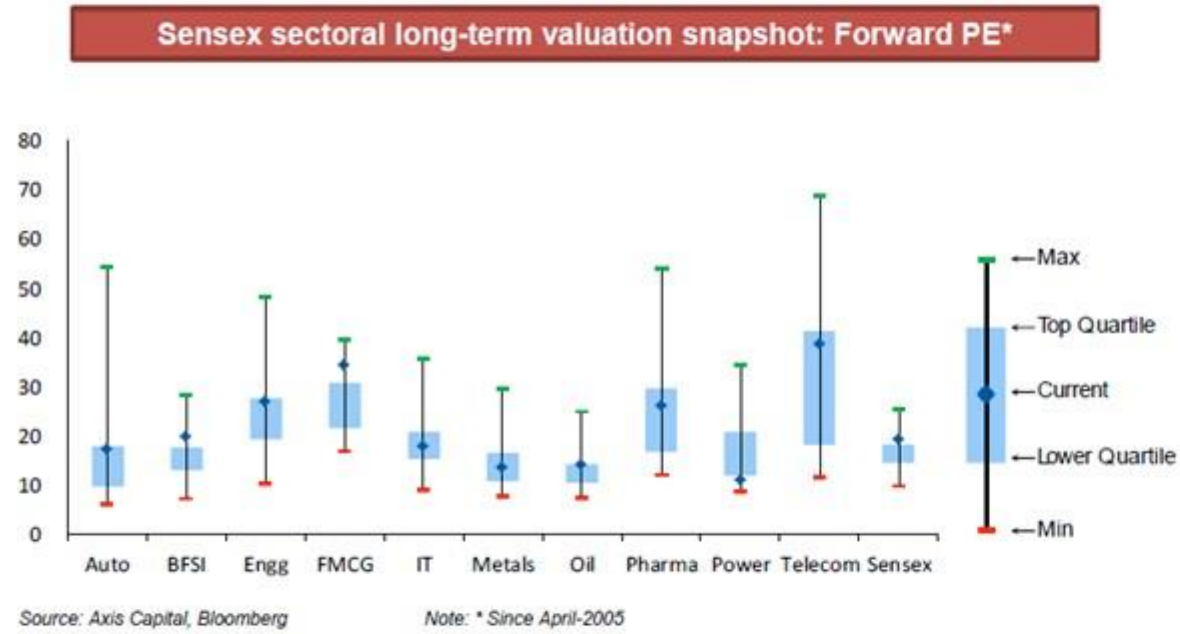
Net Investments by FPIs, DIIs and MFs in the cash market (US$ mn)	FPIs	DIIs	MFs
CY2000	1,469	NA	(147)
CY2001	2,741	NA	(1,063)
CY2002	738	NA	(619)
CY2003	6,702	NA	110
CY2004	8,627	NA	(257)
CY2005	10,901	NA	3,034
CY2006	8,338	NA	3,379
CY2007	18,518	6,039	1,390
CY2008	(12,918)	16,639	3,253
CY2009	17,639	5,325	(1,154)
CY2010	29,321	(4,754)	(5,939)
CY2011	(512)	5,943	1,295
CY2012	24,548	(10,854)	(3,805)
CY2013	19,754	(12,942)	(3,780)
CY2014	16,162	(5,090)	4,944
CY2015	3,274	10,315	10,806
CY2016	2,903	5,425	6,988
CY2017	8,014	14,043	18,322
CY2018	**2,075**	**(140)**	**786**
Jan	2,075	(140)	786

Net foreign flows in the derivatives market (US$ mn)	Index Futures	Stock Futures
CY2005	(670)	(663)
CY2006	293	(3,767)
CY2007	(834)	(12,568)
CY2008	3,901	1,356
CY2009	(1,560)	(2,232)
CY2010	(2,271)	(2,779)
CY2011	(5)	(1,081)
CY2012	1,495	(3,807)
CY2013	119	1,429
CY2014	1,398	(5,451)
CY2015	(1,324)	951
CY2016	2,101	(2,526)
CY2017	(3,180)	(1,768)
CY2018	(478)	2,035
Jan	(478)	2,035

DII- Domestic Institutional Investors (Includes Bank, DFIs, Insurance, New Pension Scheme and MF). FII data till Jan 29, MF data is till Jan 25 and DII data is for full month till Jan 30, Source: Kotak Institutional Equities Research

India Market Performance as on 2nd Feb 2018

	Last Price	1 Week %	1Month %	3Month %	6Month %	1 Year %	YTD %
India's broad based Indices							
Sensex	35067	-2.7	3.7	4.4	8	24.2	3
Nifty	10761	-2.8	3	3.2	6.7	23.2	2.2
Defty	5979	-0.9	4.8	7	8.9	33.2	4.6
BSE 100	11115	-3.3	1.5	2.2	6.5	23.1	0.8
BSE 200	4676	-3.6	0.7	2.1	6.7	23.6	-0.1
BSE 500	14886	-4	-0.1	1.8	7.1	24.8	-0.8
Nifty Jr	29656	-4.4	-3.7	-1.2	7	24	-4.2
Bse Mid cap	16575	-7.1	-6.5	-0.9	7.5	25.5	-7
Nse Mid Cap	19760	-7.9	-5.7	0.2	6.7	24.8	-6.5
BSE Small Cap	17848	-7.7	-6.8	0.4	11.1	34.4	-7.2
Sectoral Indian Indices							
Auto	25213	-1.8	-5.1	0	1.7	13	-5.7
Bankex	29910	-3.8	4.6	3.8	5.5	30	3.7
Capital Goods	19939	-3.4	4.3	8.4	12.3	33.1	4.2
Consumer Durables	21332	-7.1	-6	14.8	29.1	63.9	-6
FMCG	10685	-2.3	0.8	3.7	6.6	20.4	-0.1
Health Care	14068	-6.4	-4.3	-3.7	-0.6	-6.3	-4.9
IT	12495	-1.5	11.6	20.3	20.7	29.7	10.8
Metal	15012	-4.3	0.4	0.3	20	25.6	0.5
Oil & Gas	15668	-3.5	-2.9	-5.3	10	19.4	-3.8
Power	2229	-5	-7.4	-5.4	-4.1	2.4	-6.4
PSU (State Owned Enterprises)	8723	-5.2	-4.4	-8.1	0.7	1.8	-4.9
Realty	2424	-8.5	-6.5	2.4	11	68.4	-7.1
Teck(TMT)	6760	-2	6.6	12.3	15.4	25.7	5.5



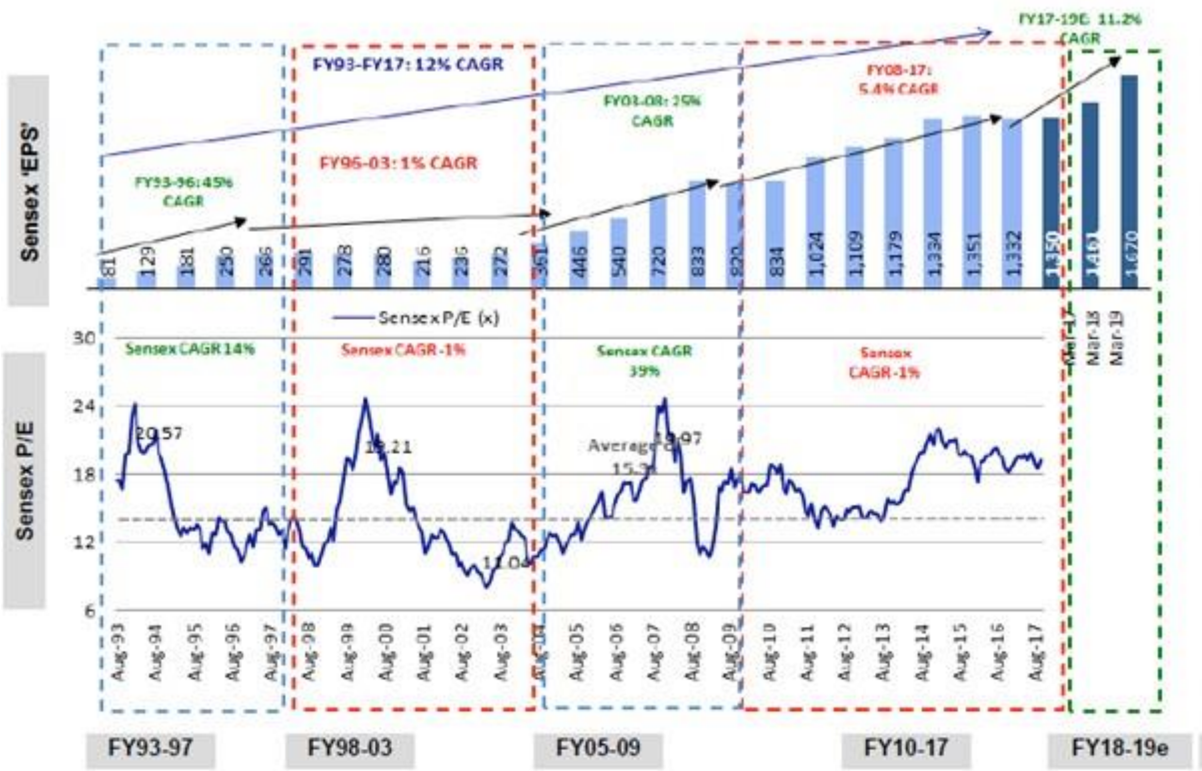
Power at lower end of valuations, other sectors moving towards upper end of valuation zone .
***PE as on 31st January, 2018**

	Forex Reserves			Currency Rates		
Country	Jan-18	Sep-13	% Change	Jan-18	Sep-13	% Change
Brazil	373.97	376.00	-0.54%	3.18	2.00	-59%
China	3140.00	3644.00	-13.83%	6.28	6.10	-3%
India	414.78	247.90	67.32%	63.67	62.60	-2%
Malaysia	98.90	132.00	-25.08%	3.90	3.30	-18%
Russia	442.80	472.00	-6.19%	56.14	32.40	-73%
South Africa	50.72	41.50	22.22%	11.85	10.00	-19%
Thailand	202.56	163.00	24.27%	31.31	31.20	0%
Turkey	139.01	110.00	26.37%	3.75	2.00	-88%

Source: Bloomberg and various Central bank data

For the first time the USD 400 billion mark was crossed in September 2017 but since then has been fluctuating. This effect is seen mainly on account of the depreciation or appreciation of non-US currencies including yen, pound etc. India continues to attract capital flow resulting in healthy foreign exchange reserves. Indian foreign exchange reserves have grown by $ 5 billion in January month, indicating rising foreign investor interest, and stronger rupee.

Valuations, Index Performance and Earnings Growth



Source : Kotak AMC

Outlook – Transition from PE Multiples to Earnings

The principal risk to equity prices remains from the fact that prices have rallied ahead of earnings recovery. Lack of private capex, low utilisation in manufacturing units, stressed state of banks' balance sheets, logjam in sectors such as power and real estate, structural issues in IT and regulatory run-ins in pharma are few problems dogging the key sectors.

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UNIFI PMS - Investment Philosophy Their thematic investment styles are designed around niche investment opportunities that exist in the Indian capital markets. Usually such specialties offer limited scope for scale-up in terms of the capital we can deploy effectively. The focus is always upon discovering and taking advantage of an insight that can provide the edge, and then adding layers of research and due diligence to construct an Equity portfolio.

Following are the portfolio strategies where UNIFI PMS is currently raising capital from clients:

India Spinoff Portfolio - Corporate India has woken up to the fact that spinning off an unrelated business, or a business with a distinctly and vastly different growth profiles is key to realising the right value of the respective business and is in the long term interest of key stake holders Investing in Companies going through a demerger. They consider an opportunity only after demerger is announced and the resolution is passed in the board, and do not speculate on the event and therefore we do not take the risk of event happening or not.

UNIFI Green Fund -The investment focus of the green fund is on companies which provide products and services that help in reducing the carbon footprint in the environment and/or result in more efficient use of natural resources. Within the context of this strategy, the sectors that have been identified for creating the portfolio are - emission control, energy efficiency, water management and waste management

UNIFI Blended Portfolio - Unifi Capital actively manages six bottom up equity strategies that sift through opportunities across the breadth of the markets. Across the funds, the mandate is to participate in opportunities that arise from a mix of emergent themes, corporate actions and of course attractiveness of core fundamentals. The objective of all the respective funds under management is to deliver superior risk adjusted returns from an absolute perspective. The Blended Portfolio Strategy is targeted at individuals who have a relatively longer term horizon and seek a passive style of investing which relies on the fund manager's discretion of choosing the best opportunities from UNIFI's thematic fund universe in a dynamically changing investment universe

Performance of UNIFI PMS Portfolios as on 31st January 2018

DVD - II Monthly Performance in %													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
CY15								-3.31%	2.94%	0.65%	1.10%	3.53%	**8.11%**
CY16	-6.32%	-12.45%	15.31%	6.09%	-2.26%	5.76%	3.35%	1.02%	2.94%	8.07%	-8.04%	-3.31%	**7.12%**
CY17	8.50%	2.13%	9.32%	4.02%	2.67%	1.01%	5.84%	2.26%	-0.33%	4.40%	0.16%	5.90%	**47.97%**
CY18	-4.58%												**-3.08%**

Hold Co Monthly Performance in %													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
CY14					1.09%	11.47%	5.55%	9.04%	25.79%	3.60%	10.76%	-3.02%	**81.57%**
CY15	2.70%	-4.40%	-2.18%	3.92%	4.76%	0.26%	12.33%	-8.09%	-3.68%	11.35%	3.22%	2.33%	**22.59%**
CY16	-11.19%	-12.97%	12.89%	4.82%	1.86%	7.29%	4.59%	19.52%	-1.99%	14.95%	-13.03%	-1.54%	**20.53%**
CY17	7.09%	4.10%	16.31%	7.99%	-4.03%	1.66%	2.48%	6.40%	3.28%	9.54%	2.14%	15.12%	**98.13%**
CY18	-9.20%												**-9.20%**

APJ20 Monthly Performance in %													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
CY15									5.78%	0.48%	2.65%	4.38%	**13.88%**
CY16	-5.88%	-11.24%	16.32%	3.48%	6.02%	4.07%	2.34%	5.54%	-3.48%	3.85%	-1.37%	-1.24%	**17.00%**
CY17	8.75%	-0.06%	10.54%	3.82%	-1.31%	0.59%	4.28%	-1.90%	4.05%	10.74%	-1.07%	6.50%	**53.78%**
CY18	-4.09%												**-4.09%**

Spin - Off Monthly Performance in %													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
CY14											-3.15%	7.21%	**3.84%**
CY15	5.97%	-0.16%	3.82%	-3.06%	1.83%	-2.95%	8.96%	-2.73%	6.92%	0.81%	14.98%	2.34%	**41.44%**
CY16	-7.20%	-14.81%	15.67%	5.27%	1.36%	1.56%	4.67%	0.89%	-1.73%	8.65%	-9.81%	-3.46%	**-2.72%**
CY17	5.92%	2.61%	1.98%	10.02%	0.40%	2.10%	2.18%	2.53%	-0.63%	8.64%	5.66%	6.27%	**58.74%**
CY18	1.07%												**1.07%**

Green Monthly Performance in %													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
CY17	-0.21%	4.51%	3.03%	6.45%	3.80%	1.64%	2.66%	0.10%	0.92%	6.99%	4.02%	0.96%	**40.61%**
CY18	-4.09%												**-4.09%**

Blended Monthly Performance in %													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
CY17						0.62%	7.59%	-0.31%	3.05%	11.60%	0.64%	6.24%	**32.69%**
CY18	-0.70%												**-0.70%**

The above returns are post management fee and before performance fee.

Debt Market:

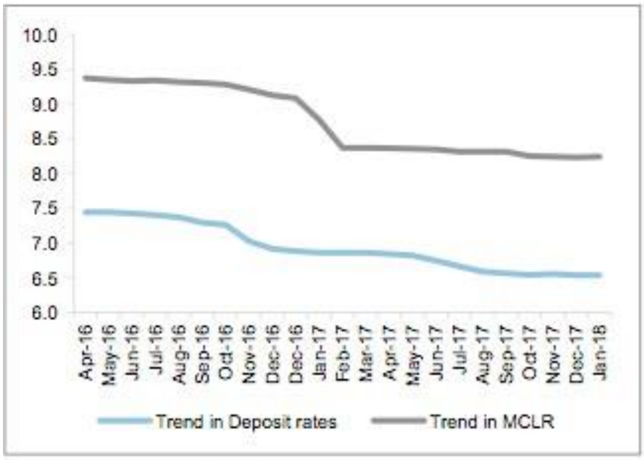
Key Recent Events

- The monetary policy committee (MPC) voted 5-1 in favour of leaving the repo rate unchanged at 6.00%, in line with consensus expectations. The stated policy stance was unchanged at "neutral".
- Inflation - Retail inflation stood at 5.21% in the month of December 2017 - higher from 4.88% in November 2017 and 3.41% in the similar month of previous year. The RBI in its Monetary Policy (7th feb 2019)revised up its inflation projection to 5.1% for Q1 2018 (from 4.3-4.7% in H2 FY18 earlier). For FY19 (year ending March 2019), it projects inflation at 5.1-5.6% in H1 before moderating to 4.5-4.6% in H2 with upside risks.
- India's exports grew to $27.03 billion (up 12.36%) in December 2017 from $26.19 billion in November 2017. Imports during the month, posted a sharper rise of 21.12 per cent to $41.91 billion led by gold, silver, precious stones, petroleum and electronic goods. This widened the trade deficit to $14.88 billion in December 2017 compared to $10.54 billion in December 2016
- Growth of the eight core sectors slowed to a five-month low of 4 per cent in December 2017 due to negative performance of segments like coal and crude oil
- U.S. economic growth unexpectedly slowed (slowed to 2.6% from 3.2% in third quarter) in the fourth quarter as the strongest pace of consumer spending in three years resulted in a surge in imports. This brings the growth in 2017 to 2.3%
- Federal Reserve officials, meeting for the last time under Chair Janet Yellen, left borrowing costs unchanged while adding emphasis to their plan for more hikes, setting the stage for an increase in March under her successor Jerome Powell
- Moody's raised India's credit rating from the lowest investment grade of Baa3 to Baa2 in November. It's the first upgrade of India's rating in 14 years. However Standard & Poor Global Ratings retained its BBB- rating for India
- Government bonds attracted bids to the tune of over Rs 5,100 crore from foreign investors on 26th November 2017 during an auction of investment limits for such securities worth of Rs 3,930 crore on offer

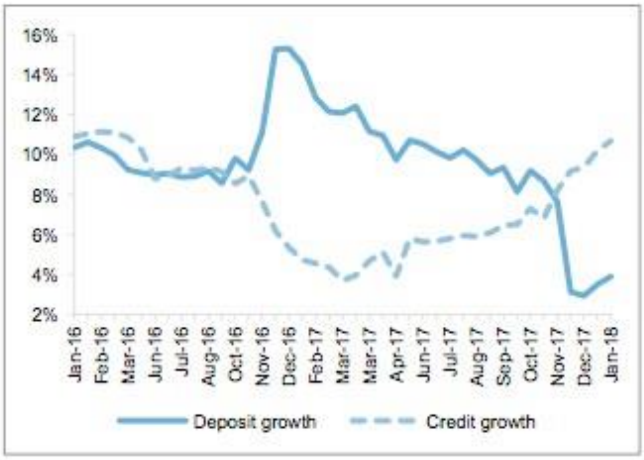
Credit growth ticking up - Credit growth touched double digits for the first time since September 2016, growing by 10.7% as of January 5, 2018

As of December 2017, industrial credit (which accounts for 36% of gross bank credit) grew 2%, while the services sector (25% of gross bank credit) and the retail segment (25% of gross credit) expanded by double digits, at 15% and 19%, respectively. Deposits growth has slowed to 3.9% as of January 5, 2018, taken against the high base of the post-demonetisation surge in deposit growth. CRISIL Research expects banking credit to grow 9-10%, supported by improved economic growth, domestic demand, and capital inflow for public sector banks, while deposit growth will grow at 6-7% in fiscal 2018 as the impact of demonetisation subsides.

MCLR and deposit rates of banks



Credit and deposit growth of banks



Note: Average of one-year MCLRs (marginal cost of funds-based lending rate) of 10 banks considered. Deposit rate is the average of 1 to 2 years of maturity, considered for 10 banks.

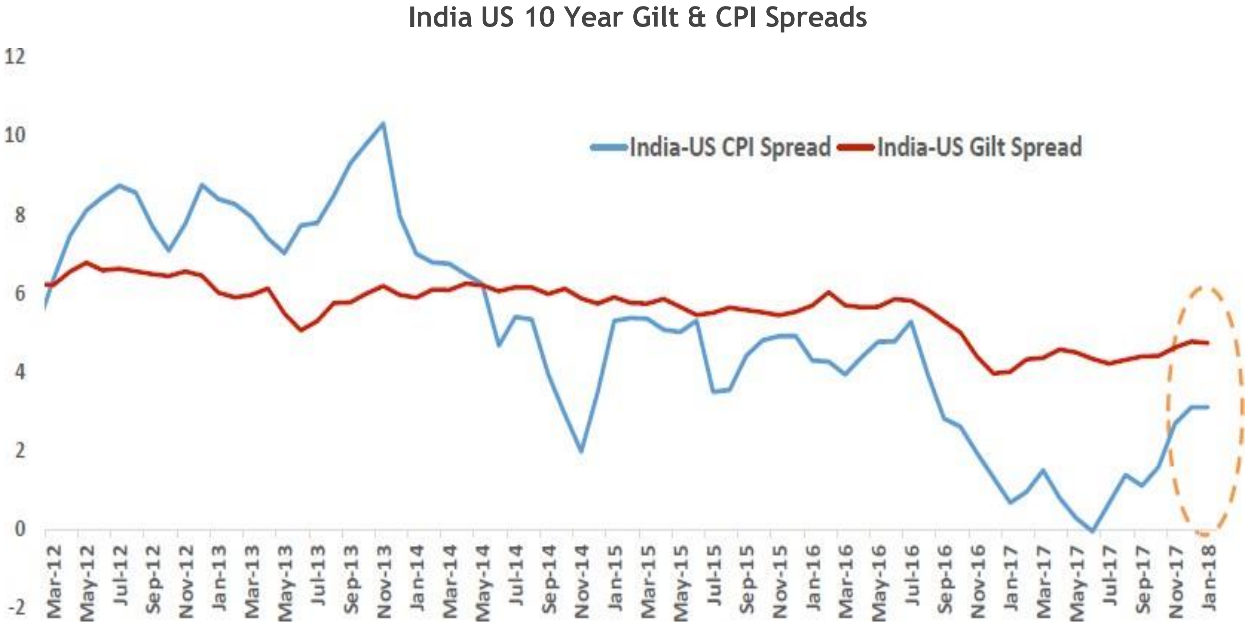
Source : RBI, CRISIL Research

Source : Bloomberg , Data as on 31st Jan 2018

Government borrowing Programme Update for FY 2017 – 18

Government Borrowing Programme (Rs. Cr.)	
Budgeted G-Sec Gross Borrowings for FY18	580,000
Budgeted G-Sec Net Borrowings for FY18	423,226
Budgeted Redemptions for FY18	156,774
G-Sec Gross Borrowings till Date	577,000
G-Sec Gross Borrowing Completed (%)	99.48%
Maturities till date	137,422
Net G-Sec Borrowings till date	439,578
Buyback till date	27,767
364 Day T-Bill Gross Borrowings till date	121,000
SDL auction till date	332,788
OMO Purchases till date	780
OMO Sales till date	90,010
**includes Sovereign Gold Bond issuances*	

Source : www.stcipd.com . Data as on 5th February 2018



Narrowing CPI spread makes Indian bonds attractive therefore FII flows expected to continue in Indian Bonds.

10 year Gilt Yield taken as average of their respective month . Data as of Jan 2018 (Jan 18 CPI is assumed to be same as Dec 2017 .Source: Bloomberg , Data as on Jan 18

Debt Market Outlook

The RBI in its 6th Bi- monthly statement for 2017- 18 (February 7th, 2017) kept the key policy rates unchanged. As per the Reserve Bank of India (RBI), there are upside risks to inflation; especially from higher oil and other commodity prices, potential increases in minimum support prices (MSP), increase in customs duty on imports in the budget and fiscal slippage. Yet, the MPC chose to stay on hold. Key reason could be its expectation of FY 19 inflation at ~4.5%, despite the near term overshoot expected. Additionally, it also seems to be waiting for more clarity on the MSP mechanism. The stated policy stance was unchanged at “neutral”

To summarise, bottoming out of Indian inflation, the rising crude, other commodity prices and the global rates would make the central bank cautious in its stance. That said, we do not expect the central bank to embark on a rate hike cycle anytime soon. India’s domestic investment and growth revival is nascent, even as global economic activity picks up pace. Accordingly, we expect RBI to hold policy rates over the next six months unless significant upside risks to the MPC’s inflation forecast materialise.

Indian sovereign yields have been spiking over the past six months. The budget too added to the uncertainty after it said that the fiscal deficit n the next financial year will be higher that what the market expected. The 10 year benchmark bond yield was 7.53% on 2nd February 2017. The local benchmark now ranks as one of the highest yielding bonds among emerging markets & therefore is attractive to global investors.

We expect the yields to be range bound and recommend Investors to take advantage of the recent hardening of yields and allocate debt investments to funds with low to medium duration such as Short term funds & Corporate Bond Funds. Investors can also looking at locking in the attractive yields provided by Fixed Maturity Plans (FMPs) investing in AAA / AA rated papers and thus negating any mark to market risk (if held till maturity).

Though the 10 yr yields are at attractive levels (7.53%) we believe the risk return trade-offs are in favour of shorter end of the yield curve due to the following factors – 1) Fiscal actions exerting higher influence on inflation, 2) Firmer input prices (oil / commodities) translating into higher core inflation & 3) Faster than expected Interest rates hike in US. We will suggest duration when the dynamics improve.

Investors can also look at investing in UNIFI Alternate to Debt Portfolio – Various corporate events like buybacks, delisting, mergers, demergers as well as open offers emanating from M&A have varying degrees of information asymmetry resulting in mispricing of the underlying stocks. The portfolio will look at allocating capital to such special situations as well as bonds having credit rating of AA and above. Minimum Capital contribution required is 25 lacs. To benefit from preferential treatment of small shareholders in corporate events the maximum allocation by an investor is restricted to 30 lacs. The target is to generate a post-tax and post expense return of 9%-11% p.a. There is no fixed fee, a 25% profit share which will be charged on 31st March every year over 8% p.a. hurdle rate (return) . Suggested investment horizon 18-24 months.

Performance of Debt Mutual Funds as on 6th Feb 2018

Debt Fund Category - Average	Annualised Returns (%)						CAGR (%)		
	1W	2W	1M	3M	6M	1Y	2Y	3Y	5Y
Liquid Plus / Ultrashort term funds	4.87	4.90	4.84	4.72	5.43	6.15	7.41	-	-
Liquid Funds	6.29	6.32	6.30	6.24	6.27	6.33	6.84	-	-
Short Term Funds	-0.47	-0.33	1.72	1.60	3.29	5.02	7.50	7.42	8.12
Accrual/ Corporate Bond Funds	-0.43	-0.11	2.31	2.28	4.31	6.36	8.66	8.54	9.07
Bond /Dynamic Bond Funds	-15.00	-18.14	-9.41	-5.42	-2.85	1.45	7.58	6.43	7.87
Gilt Funds (Long Term)	-32.20	-35.13	-20.00	-10.94	-7.05	-0.59	7.68	6.21	7.72

Change in Fixed Income Variables for last 12 months as on 7th Feb 2018

Certificate Of Deposit (CD)	07-Feb-18	31-Oct-17	31-Jul-17	28-Apr-17	31-Jan-17
3 MONTHS	7.23%	6.25%	6.24%	6.45%	6.25%
6 MONTHS	7.40%	6.52%	6.39%	6.50%	6.45%
1 Year	7.47%	6.55%	6.55%	6.66%	6.50%
Commercial Paper (CP)					
3 MONTHS	7.95%	6.85%	6.60%	6.80%	7.05%
6 MONTHS	8.05%	7.00%	6.75%	7.10%	7.15%
1 Year	8.15%	7.15%	7.00%	7.30%	7.25%
GOVERNMENT SECURITIES					
6.79% GOI 2027 (New Ten Year)	7.69%	6.87%	6.45%	6.94%	6.39%
6.97% GOI 2026 (Old Ten Year)	7.82%	7.05%	6.67%	7.03%	6.53%
7.17% GOI 2028	7.53%	-	-	-	-
AAA CORPORATE YIELDS					
NON PSU					
1 YEAR	8.00%	7.20%	6.95%	7.40%	7.43%
3 YEAR	8.15%	7.45%	7.26%	7.70%	7.55%
5 YEAR	8.25%	7.52%	7.33%	7.80%	7.60%
10 YEAR	8.27%	7.67%	7.43%	7.85%	7.65%
PSU					
1 YEAR	7.60%	6.70%	6.70%	7.15%	6.65%
3 YEAR	7.75%	6.99%	6.93%	7.30%	6.78%
5 YEAR	7.83%	7.12%	7.05%	7.42%	7.00%
10 YEAR	8.10%	7.55%	7.23%	7.73%	7.25%
10 YR US Treasury	2.77%	2.36%	2.29%	2.29%	2.46%
NYMEX (OIL $)	63.86	54.06	49.89	49.57	52.40
BRENT CRUDE ($)	67.41	60.85	52.76	52.05	55.10
CALL	6	6.00	6.20	6.05	6.25
RUPEE	64.11	64.83	64.10	64.13	67.81
Gold $	1330.28	1277.60	1268.04	1265.17	1202.08
Repo Rate (%)	**6.00**	**6.00**	**6.25**	**6.25**	**6.25**
Reverse Repo Rate (%)	**5.75**	**5.75**	**6.00**	**6.00**	**5.75**
Cash Reserve Ratio (CRR) (%)	**4.00**	**4.00**	**4.00**	**4.00**	**4.00**
Statutory Liquidity Ratio (SLR) (%)	**19.50**	**19.50**	**20.00**	**20.50**	**20.75**

Source: IDFC AM

Budget Highlights 2018 -19: Populism ahead of the Election Year

Key Highlights -

Fiscal Deficit : FY19 fiscal deficit estimated at 3.3% of the GDP. The government's FY2019 GFD/GDP target of 3.3% (3.5% for FY2018RE) appears daunting given uncertainty in the government's taxation revenues, arising from a slower-than-expected pickup in GST revenues since the inception of GST. Fiscal deficit for 2017-18 is likely to be higher at 3.5% compared to the targeted 3.2% of the GDP.

Direct Taxes: There is no change in income tax slabs for individuals. Standard deduction of Rs 40,000 for transport and health will be allowed for salaried people. Deduction for health insurance for senior citizens has been raised to Rs 50,000. The government did not change the basic corporate tax rate (for larger companies) despite its oft-repeated promise of reducing corporate tax rates (basic) to 25% by FY2020. However, it has provided further relief to smaller companies by reducing the corporate tax to 25% for the companies with an annual turnover of Rs 250 crores.

Long-Term Capital Gains Tax: LTCG from sale of equity shares and equity mutual fund schemes will now be taxed at 10%, if total capital gains in a year cross Rs 1 lakh. However all the gains earned upto 31st January 2018 will be grandfathered. The securities transaction tax (STT) of 0.001% that unit holders of mutual funds pay at the time of selling and the STT paid at the time of buying and selling of direct equity shares (0.1% paid both at the time of buying as well as selling) will continue. This change in capital gain tax is expected to bring marginal revenue gain of about Rs 20,000 crore in the first year. To ensure that investors don't switch to dividend plans, in order to escape paying the new 10% LTCG tax, Budget 2018 has also introduced the dividend distribution tax (DTT) of 10% for Equity Oriented mutual fund. Also health and education cess increased to 4% from 3%. This will increase the income tax rate for individuals in the highest income category to 35.88%.

Indirect Taxes: Customs duty on mobile phones was increased to 20% from 15 %. Also Customs duty on some mobile and television parts increased to 15%. However Customs duty on raw cashew reduced to 2.5% from 5%.

Agriculture: Minimum support price for kharif season crops will be raised to 1.5 times of agri production cost—that is cost plus 50%. Total credit to agriculture target is set at Rs 11 lakh crore for FY19. The government will spend Rs 14.34 lakh crore on rural infrastructure across various schemes and departments. Also the government plans to strengthen the e-national agricultural market network.

Healthcare: Government has proposed National Health Protection Scheme for 10 crore families. It provides a health cover of Rs 5 lakh per family a year. Also Rs 600 crore will provide nutritional support to tuberculosis patients.

MSMEs, Start Ups: Government set a target of Rs 3 lakh crore for FY19 under Mudra lending scheme. Government will also work towards resolving bad loans of micro, small and medium enterprises.

Education: Rs 1 lakh crore will be invested on education infrastructure over four years. Also initiation of on education infrastructure over four years was highlighted in the budget. RTE Act was amended to train 13 lakh teachers. 18 schools of planning and architecture will be set up.

SC/ST Upliftment: FY19 allocation for scheduled tribes & scheduled caste was Rs 39,135 crore & Rs 56,619 crore respectively.

Infrastructure: In order to create employment and aid growth, the government has increased budgetary and extra budgetary expenditure on infrastructure for 2018-19 to Rs 5.97 lakh crore from Rs 4.94 lakh crore in 2017-18. National Highways exceeding 9,000 km would be completed in 2018-19. 99 cities have been selected with an outlay of Rs. 2.04 lakh crore under the Smart Cities Mission. Projects worth Rs. 2350 crore have been completed and works of Rs. 20,852 crore are under progress.

Railways, Air Connectivity: 1.48 lakh crore has been allocated to as railway capital expenditure for FY 2018-19. Rs 40,000 crore will be spent on upgrading Mumbai train systems. Also there is a plan for 160 km suburban rail line in Bengaluru, which will cost Rs 17,000 crore. All railway stations with more than 25,000 footfalls will have escalators in the year ahead. Regional air connectivity scheme UDAN aims to connect 56 unserved airports, 31 heliports

Digital India: One lakh gram panchayats have been connected under Bharat Net. FY19 allocation for rural telecom set at Rs 10,000 crore. Also Rs 3,073 crore was allocated under Digital India programme.

Source: Bloomberg

Disclaimer