

EQUITY FUNDS RIDE ON ELECTION RESULT

The Indian equity market remained buoyant in May, driven by the positive election outcome and the clear victory of the Congress-led United Progressive Alliance government. Stocks surged as investors expected major economic reforms from the new government. The rally was also strengthened by a

surge in foreign inflows, which totalled at least Rs20,000 crore in one month alone, the highest in the current calendar year. The strong rally benefited the frontline indices, which registered a 28% return during the month. Mid- and small-cap stocks outperformed their large-cap counterparts and posted returns of

about 38%, as measured by the CNX Mid Cap index. Mutual fund activity remained robust during the month. Fund managers cut cash exposure in their portfolios to tap the strong stocks rally and invested around Rs2,300 crore. Investors favoured infrastructure-led stocks with expectations of strong

reforms from the forthcoming budget. The realty, metals and consumer discretionary stocks posted more than 50% gains during the month, followed by banking and power stocks. Shares of consumer goods companies were the least impressive performers during the same period.

Tomorrow: Debt funds

Graphics by Paras Jain/Mint

Methodology

The Morningstar star rating methodology is based on a fund's risk-adjusted return denoted as Morningstar risk-adjusted return (MRAR) within a given Morningstar category. Morningstar categorizes funds based on their average holdings statistics for the past three years. Morningstar uses expected utility theory as the basis for MRAR. The expected utility theory determines how much return an investor is willing to give up to reduce risk. Therefore, MRAR gives more importance to a fund's downside deviation. To calculate MRAR, a fund's monthly total return is calculated. The total return is then adjusted for

risk-free rate to arrive at the Morningstar return. The Morningstar return is then adjusted for risk to calculate MRAR. Morningstar uses parameter gamma to describe investors' sensitivity to risk. Morningstar fund analysts have concluded that gamma equal to two results in fund rankings that are consistent with the risk tolerances of typical retail investors. Morningstar risk is calculated as the difference between Morningstar return and MRAR. Morningstar rating is calculated every month for 3-, 5- and 10-year periods. The fund's overall rating is calculated based on a weighted average of the

available time period ratings. Within each rating period, the top 10% funds receive a five-star rating, the next 22.5% earn a four-star rating, the next 35% get three stars, the next 22.5% receive two stars, and the last 10% get one star. Morningstar rates each share class of a fund separately, because each share class has different loads, fees and total return time periods available. The distribution of funds among the star ratings depend on the number of portfolios evaluated within the category, rather than the number of share classes available.

India Large-cap

The rally in frontline indices boosted performance of large-cap equity funds. The Morningstar India Large Cap category delivered 28.3% average return, in line with the category benchmark, the BSE Sensex. Out of 129 funds, 56 funds outperformed the category average with Escorts Growth Fund registering the highest one-month return. Among laggards, Bharti AXA Regular Return Fund posted the least return of 5%.

Group/investment	Fund size (in Rs crore)	Inception date	Net asset value	Total return (%) May	Total return (%) 1 year	Total return (%) 3 years	Morningstar rating (3 years)	Morningstar return rating (3 years)	Morningstar risk rating (3 years)	Expense ratio
Escorts Growth (G)	2.7	Apr '01	56.9	52.3	-20.6	5.3	★★★	Below average	Above average	2.5
Escorts Leading Sectors (G)	0.8	Aug '08	8.7	46.1	na	na	na	na	na	2.5
Birla Sun Life Infrastructure (G)	312.8	Mar '06	13.4	41.7	-5.3	11.9	★★★	Average	High	2.3
Sundaram BP Entertainment Opp Retl (G)	76.0	Jun '08	13.1	40.7	na	na	na	na	na	2.5
Taurus Bonanza Exclusive Growth 95 (G)	26.5	Aug '95	35.1	40.4	-15.3	2.7	★	Low	Above average	1.9
DBS Chola Opportunities (G)	36.4	Jan '98	33.4	40.1	-14.4	16.8	★★★	High	High	2.5
Birla Sun Life Basic Industries (G)	79.5	Feb '00	75.9	39.2	-9.0	9.8	★★★	Average	Above average	2.5
Sahara Infra Var Pricing (G)	9.3	Apr '06	14.8	39.1	4.5	17.4	★★★★★	High	Above average	1.8
Canara Robeco Infrastructure (G)	98.5	Dec '05	17.9	38.5	-6.1	15.4	★★★★★	Above average	High	2.4
Reliance Regular Savings - Equity (G)	758.0	Jun '05	21.3	38.2	-3.9	21.4	★★★★★	High	High	2.2

India Small/Mid-cap

This category outperformed its large-cap category peers and registered 35.1% return as investors favoured mid- and small-cap stocks, owing to their favourable relative valuations. Out of 71 funds considered, 34 funds beat the category benchmark during the month. Within this category, Taurus Infrastructure Fund registered the highest return of 61.9%, followed by JM Basic Fund, which posted 60.2% return. Religare Equity Fund gave the least return of 16.1% during the month.

Taurus Infrastructure (G)	9.3	Mar '07	11.0	61.9	-2.0	na	na	na	na	1.9
JM Basic (G)	403.4	Jun '97	16.6	60.2	-36.8	3.9	★	Average	High	2.1
Sundaram BP CAPEX Opportunities (G)	348.0	Oct '05	19.3	53.5	-14.4	10.5	★★★★	Above average	Above average	2.2
Sundaram BP Sel Midcap (G)	975.0	Jul '02	100.4	51.7	-3.9	7.6	★★★★	Above average	Above average	1.9
SBI Magnum Midcap (G)	193.6	Apr '05	17.9	50.8	-23.0	-0.4	★	Below average	High	2.5
JM Emerging Leaders (G)	145.5	Aug '05	6.1	50.3	-54.5	-18.7	★	Low	High	2.3
Taurus Starshare (G)	89.1	Jan '96	42.5	49.1	-17.5	9.9	★★★★	Above average	High	1.8
JM Small & Mid-Cap Reg (G)	51.5	Apr '07	4.9	47.6	-59.0	na	na	na	na	2.4
SBI Magnum Sector Umb - Emerg Busn (G)	103.0	Oct '04	25.0	47.1	-24.4	-1.1	★	Below average	High	2.5
SBI Magnum Global (G)	774.0	Sep '94	35.8	45.2	-21.8	0.5	★★	Below average	Above average	2.5

India ELSS

The India ELSS (equity-linked savings scheme) category registered a 30.8% return in May, underperforming its benchmark, the BSE 200 Index, which registered a 32.4% return. Bharti AXA Tax Advantage Fund registered the highest return within this category with a 42.8% return. Among the laggards, Principal Tax Savings Fund and DWS Tax Saving Fund posted the least return of 21.7% and 23.8%, respectively.

Bharti AXA Tax Advantage Reg (G)	3.2	Feb '09	17.4	42.8	na	na	na	na	na	2.3
Taurus Tax Shield (G)	15.8	Dec '97	26.3	39.4	-3.8	16.4	★★★★★	High	High	2.5
Birla Sun Life Tax Relief 96 (G)	591.7	Mar '08	8.4	38.1	-15.3	na	na	na	na	2.2
DBS Chola Tax saver (G)	22.2	Nov '05	11.9	36.1	-14.0	2.5	★★★	Below average	Above average	2.5
Canara Robeco Equity Tax saver (G)	31.7	Feb '09	17.4	35.9	na	na	na	na	na	2.5
ING Tax Saving (G)	30.5	Mar '04	19.7	35.1	-24.5	-4.6	★	Low	Above average	2.5
Kotak Tax saver (G)	337.7	Nov '05	13.8	34.5	-18.5	4.9	★★★★	Average	Above average	2.3
Escorts Tax Plan (G)	3.3	Apr '00	37.1	33.6	-29.3	0.1	★★★	Below average	Below average	2.5
Sahara Taxgain (G)	5.4	Apr '97	25.4	33.0	-0.1	11.6	★★★★★	Above average	Average	2.5
Sundaram BP Tax saver (G)	745.0	Nov '99	34.9	32.8	0.8	14.6	★★★★★	High	Average	2.2

India Moderate Allocation

The India Moderate Allocation category includes funds that invest up to 70% in stocks and the rest in debt and money market instruments. During the month, this category registered an 18.9% return, owing to strong equity gains. Out of 44 funds, 23 outperformed the category average for the month. Escorts Balanced Fund was the best performing fund in this category. In May, the fund delivered a 32.2% return. Among the laggards, Baroda Pioneer Children Gift Fund posted the worst return of -0.1%.

Escorts Balanced (G)	2.3	Apr '01	50.6	32.2	-9.6	7.5	★★★	Average	Above average	2.3
LIC Childrens	5.5	Nov '01	10.1	31.8	-25.7	-9.5	★	Low	High	2.2
JM Balanced (G)	20.6	Apr '95	20.3	29.8	-16.8	1.6	★	Below average	High	2.5
ICICI Pru Child Care Gift Plan	86.7	Sep '01	36.9	28.4	-21.4	1.8	★	Below average	High	2.5
HDFC Prudence (G)	1,957.7	Feb '94	133.9	27.8	4.3	14.0	★★★★★	Above average	High	1.9
ING OptiMix Asset Alloc Multi Mgr FoF (G)	16.4	Jul '06	16.3	27.4	21.6	na	na	na	na	0.8
Sundaram BP Balanced (G)	31.6	May '00	36.4	26.6	-3.6	8.5	★★★★	Average	Average	2.5
SBI Magnum NRI Inv Flex Asset (G)	8.2	Feb '04	23.6	26.2	-9.5	3.9	★★★	Below average	Average	2.5
Tata Balanced (G)	175.6	Jan '96	58.3	25.3	-3.6	11.4	★★★★	Above average	Average	1.4
Canara Robeco Balanced (G)	115.5	Feb '93	45.4	25.2	5.0	10.5	★★★★	Above average	Above average	2.4

India Conservative Allocation

This category includes funds that invest up to 30% in stocks and the balance in debt and money market instruments. In May, this category posted a 4.5% return. Out of 58 funds available for sale, 24 outperformed the category peers. Birla Sun Life Asset Allocation Moderate Fund delivered the highest return of 18.1%, followed by UTI Children Career Bond Fund, which delivered a 16.8% return. Among the laggards, DWS MIP Plan A was the worst performing fund and registered -0.6% return.

Birla Sun Life Asset Alloc Modrt (G)	4.4	Feb '04	21.8	18.1	7.2	13.6	★★★★★	High	High	0.4
UTI Childrens Career Bond (G)	28.0	Mar '04	12.7	16.8	5.9	5.8	★★★	Below average	High	1.4
ICICI Pru Cautious (G)	3.2	Dec '03	15.6	9.1	3.1	7.9	★★★★	Average	High	0.4
UTI Mahila Unit Scheme	90.5	May '01	34.5	8.3	10.8	10.3	★★★★★	Above average	Above average	2.3
FT India Life Stage FoF 50s (G)	10.4	Dec '03	15.6	8.1	6.5	8.2	★★★★	Average	Above average	0.3
UTI Charitable and Religious Trusts (G)	358.5	Oct '81	138.5	7.6	9.9	8.0	★★★★	Average	Above average	1.4
Canara Robeco CIGO (G)	6.5	Apr '88	25.7	7.4	17.1	14.1	★★★★★	High	Above average	2.5
HDFC MIP L/T (G)	899.6	Dec '03	18.4	7.0	13.0	11.0	★★★★★	High	Above average	1.7
Birla Sun Life Asset Allocation Con (G)	4.6	Feb '04	17.6	6.8	9.4	11.0	★★★★★	High	Average	0.4
DSP BlackRock Sav Mgr Agg (G)	59.6	Jun '04	16.7	6.3	9.5	10.0	★★★★★	Above average	Average	2.2