



## MF sales hit by abolition of entry load

### Industry news

- ♦ **MFs see 9% growth in assets; AUMs breach Rs7-lakh-crore mark:** The mutual fund (MF) industry breached the Rs7-lakh-crore mark in assets in August 2009. The industry's total assets under management (AUM) grew by Rs59,965.79 crore, or 8.69%, during the month. The combined average AUM of the 36 fund houses hit the historic Rs7-lakh-crore mark at the end of August at Rs7,49,911.91 crore as compared to an AUM of Rs6,89,946.12 crore at the end of July.
- ♦ **Investors put Rs32,600 crore in MFs in August:** Investments in MFs slumped substantially in August, with the industry witnessing a net fund inflow of over Rs32,600 crore, a 74% decline on a month-on-month basis. At the end of August, investors poured in funds worth Rs32,673 crore, down from Rs123,679 crore at the end of July. The equity funds investing in stocks saw net outflow of Rs142 crore.
- ♦ **Abolition of entry load hits MF sales:** The abolition of entry loads on equity MF schemes has sharply hit sales of equity schemes in the very first month of the new rule coming into effect. Equity assets recorded a net outflow to the tune of Rs142 crore in August despite a 5% increase in the overall industry's AUM to Rs7 lakh crore. Thus, the share of equity assets in the total industry AUM has slipped further to 24%, including equity linked saving schemes (ELSS), from over 25% of assets until the last month.
- ♦ **SEBI asks MF houses to get systems audit done once in two years:** The Securities and Exchange Board of India (SEBI) has asked all MF companies to get their systems audited at least once in two years and submit the reports to the market regulator. The regulator said that considering the importance of systems audit in the technology driven asset management activity, it has been decided that MFs shall have a systems audit conducted by an independent CISA/CISM qualified or equivalent auditor.

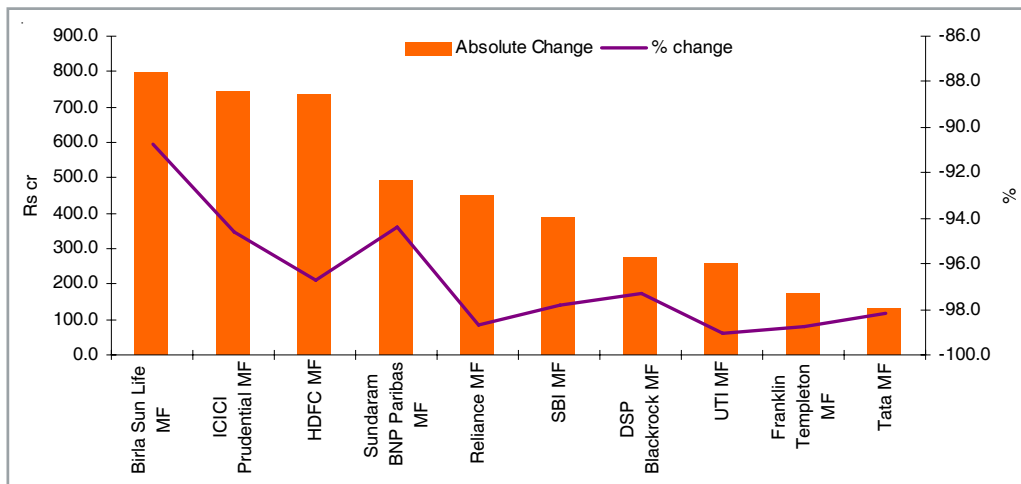
### Highlights

- ♦ Total AUM of equity MFs stood at Rs192,732.5 crore in August 2009, a growth of 2% from July 2009. On adjusting for the net inflows, the growth stood at 2.2%, which was higher than the growth in the market which remained flat in the same period.
- ♦ Fund managers made gross purchases worth Rs17,452 crore and turned net buyers to the tune of Rs572.9 crore during the month.
- ♦ Equity MFs (includes balanced schemes and ELSS) registered a net outflow of Rs294 crore in August 2009. Fund flows into the existing schemes also declined by 37.7% due to a sharp 96.6% drop in the new fund offering (NFO) collections to Rs82 crore despite an 8.3% reduction in the total redemption volumes.
- ♦ MFs are sitting on Rs14,403 crore of cash that is waiting to be deployed in the market. Of this Rs14,321 crore lies with the existing MFs while the remaining Rs82 crore has been mobilised through NFOs.
- ♦ Going against the trend of the volatile movement in the equity markets, all sector funds charted into positive territory during August 2009 (except FMCG Index, which gave a negative return and underperformed the market). Pharmaceutical funds gave the highest returns in August 2009, followed by technology funds and automobile funds.
- ♦ MFs slashed their exposure to banks and cement sectors and bought stocks in realty, pharmaceutical, technology, and oil and gas sectors in August 2009.

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♦ Major movers for August 2009

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Birla Sun life Mutual Fund saw the largest increase of Rs795.4 crore in its AUM, followed by ICICI Pru and HDFC Mutual Fund. Kotak Mahindra reported a steep decline in the absolute values of their August 2009 AUM, falling by 101.3%.

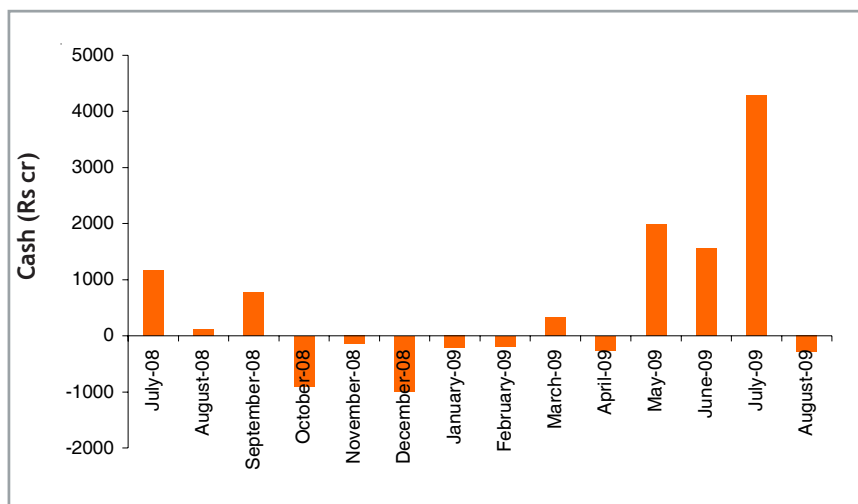
♦ Stock market activities for mutual funds

MFs remained net buyers of equities in August 2009.

Month	Purchase (Rs cr)	Sales (Rs cr)	Net (Rs cr)
August 2009	17,452	16,879.1	572.9

Equity fund flow

In a clear reversal of trends, equity MFs declined by 106.9% and registered net outflow of Rs294 crore in August 2009 compared with the net inflow of Rs4,283 crore in July 2009. Fund flows into the existing schemes also declined by 37.7% due to a sharp 96.6% drop in the NFO collections to Rs82 crore as compared to Rs2,394 crore in July 2009. Besides, redemptions declined by 8.3%. The sharp decline in the fund flow is due to the abolition of entry loads which has severely hit MF sales. The NFO collections include the amounts raised by Shinsei Industry Leaders Fund, Kotak Select Focus, Sahara Star Value Fund, Franklin Build India Fund and Canara Robeco FORCE Fund.

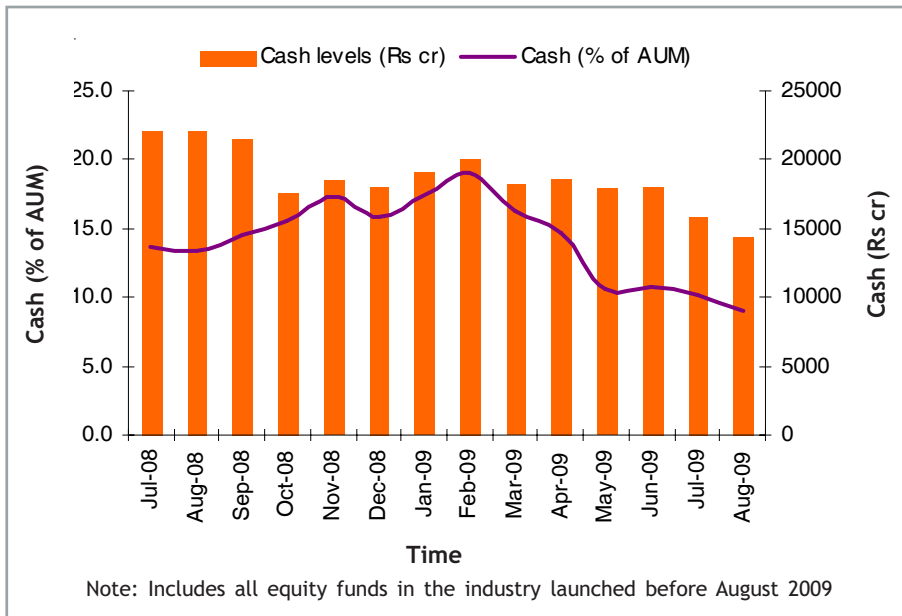


## Cash levels

### Liquidity

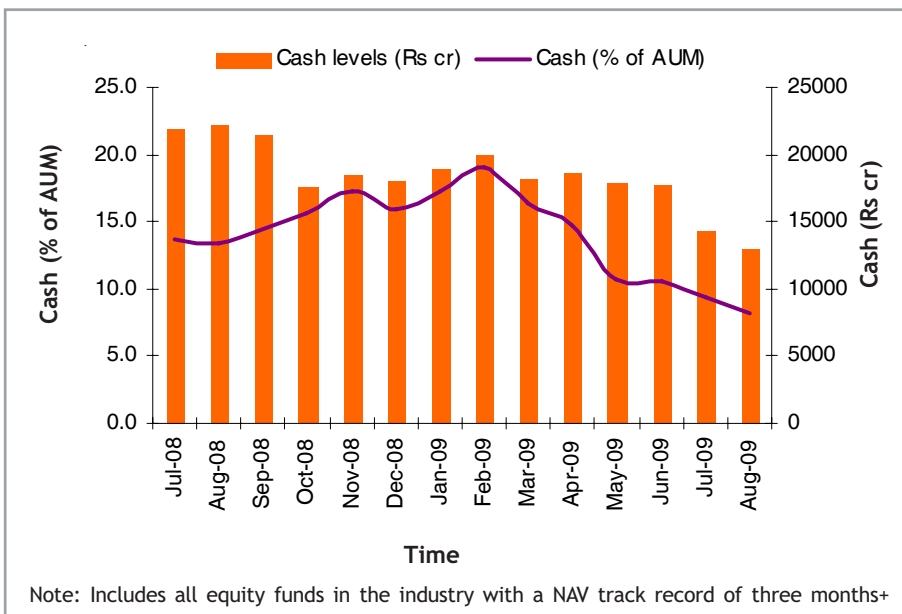
Cash levels declined by 9.7% to Rs14,321 crore in August 2009. Even as a percentage of corpus the cash level fell to 8.9% from 10.2% in the previous month. This is indicative of the improvement in the buying activity of MFs to capitalise on the rock-bottom valuations.

Further, the total cash sitting with the MFs including the cash mobilised through the recently launched NFOs (Rs82 crore) stands at healthy Rs14,403 crore. Flush with cash, MFs are well placed to maintain the buying interest and propel the market forward.



### Sentiments

The cash level for all funds more than three months old also showed a similar trend, falling to 8.3% of the equity-oriented AUM during August 2009 (as compared with 9.4% in July 2009). This once again reflects the investments made by fund managers to take advantage of low valuations.



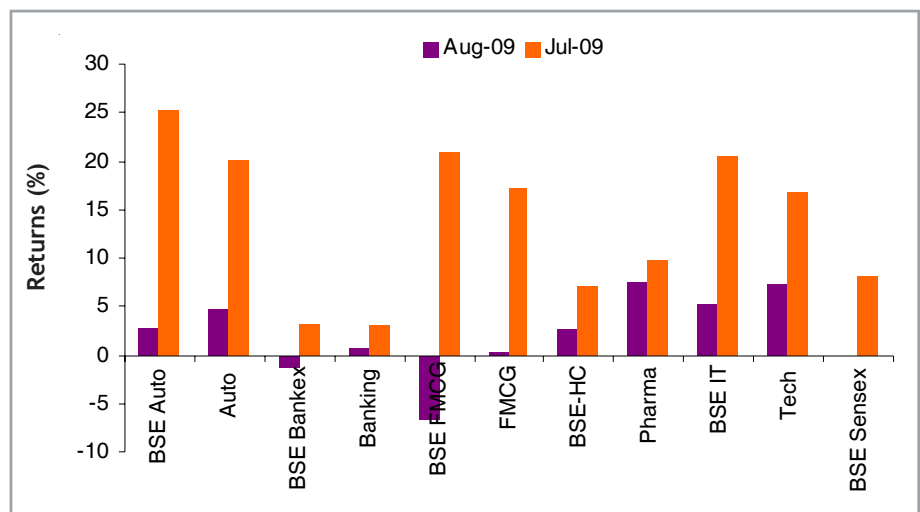
## Sector allocation

Major shifts in the sector allocation for the equity-diversified category are as under:

Sector name	August 2009		July 2009		% chg
	Amount (Rs cr)	% of net assets	Amount (Rs cr)	% of net assets	
<b>Increase in exposure</b>					
Housing & Construction	795.52	5.01	705.51	4.49	0.52
Pharmaceuticals	776.29	4.89	706.84	4.50	0.39
Technology	1457.29	9.18	1381.42	8.79	0.39
Oil & Gas, Petroleum & Refinery	1992.50	12.55	1917.06	12.20	0.35
Textiles	213.77	1.35	178.08	1.13	0.21
Engineering & Industrial Machinery	746.52	4.70	722.71	4.60	0.10
<b>Decrease in exposure</b>					
Banks	1817.18	11.44	1881.30	11.97	-0.53
Cement	333.49	2.10	399.44	2.54	-0.44
Telecom	672.41	4.23	690.16	4.39	-0.16
Miscellaneous	571.29	3.60	580.82	3.70	-0.10

## Performance of sector funds

Going against the trend of the volatile movement in the equity markets, all sector funds charted into positive territory during August 2009 (except FMCG Index, which gave a negative return). Barring the FMCG Index, all the sector funds outperformed the Sensex. All the funds outperformed their sectoral indices as well. The pharmaceutical funds gave the highest returns in August 2009, followed by technology funds and automobile funds.



**Disclaimer:** Mutual fund investments are subject to market risk. Please read the offer document carefully before investing. Past performance may or may not be sustained in the future.

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