SHRIRAM
Mutual Fund
Nurturing Trust, Shaping Dreams

Fund Facts

As on 29 February 2016

Economic Commentary and Market Review - February 2016

In the month of February, all eyes remain on the budget which gives a cue about the future course of action of the government, more significant at present since the domestic economy is already reeling under a slowdown. The budget laid emphasis on agriculture and farmer welfare with an aim to increase purchasing power in the rural economy. Besides, the thrust on infrastructure was a big positive with the budget focusing on the roads sector, railways and ports as a key vehicle for channelling public investments.

The stock market on the budget day was volatile and both the benchmark indices recorded sharp swings (~850 points for Sensex and 260 points for Nifty). However, the bonds and Rupee rallied after the previously announced fiscal deficit target of 3.5% for FY17 was maintained. This in turn raised hopes of a rate cut by the RBI. Meanwhile, the Nifty ended the month with ~7% negative return with Realty (down 15%), Banking (11%) and Finance (11%) being the worst performing sectors. In the first two months in 2016 Nifty has crashed by ~ 12% amidst sharp slump in crude prices and concerns over global slowdown.

The FIIs continue to remain net sellers in the equities market. They pulled out almost $2.45 billion in the first two months of 2016 from India (FIIs invested $3.2 billion in CY2015). However, Fed keeping interest rate unchanged due to slowdown in China and Europe is positive news for India. On the other hand domestic institutional investment (DII) remained buyers during January February 2016 taking advantage of lower valuation and invested Rs 13,273 crores in equities. This is in addition to ~Rs 70,000 crores already invested by mutual fund houses in 2015. However, given the weakness in stock markets, inflows to equity mutual funds in February stood at Rs 2,522 crores, the lowest level in the last 21 months. This also marks the third successive month of decline in domestic mutual funds. If this inflow trend continues, how long the DIIs will be able to provide cushion to the market remains a concern.

Economic news for the domestic economy remains mixed. Inflation has been in the comfort zone of the RBI over the past few months. CPI for February dipped to four-month-low of 5.2% as food price inflation moderated a bit. WPI in February came in at -0.91%, the straight sixteenth month of being in the negative territory; remained almost unchanged from -0.9% in the previous month. Food inflation dropped to 3.35% in February from 6.02% in the previous month with inflation in pulses moderating to 38.84% (from 44.91% in January) marking a third straight month of decline.

Data for index of industrial production continue to disappoint. For the third consecutive month IIP remained in the negative zone at -1.5% in January 2016 owing to contraction in output of capital goods and consumer non-durables. The continued double-digit decline in capital goods (down 20% in January), an indicator of investment demand, is a matter of concern. Among the sectors mining and electricity recorded growth of 1.2% and 6.6%, respectively while manufacturing (accounting for over 75% of the index) dropped 2.8% during the month. With weaker-than-expected IIP growth in January and growing concerns about sluggish recovery, expectation for a rate cut by the Reserve Bank of India in its April monetary policy review will increase. Meanwhile, manufacturing PMI in February remained unchanged from January level at 51.1, an improvement from December level of below 50 signifying contraction for the first time in over two years.

Amidst struggling manufacturing scenario, status of the passenger vehicle sales does not paint a rosy picture either. As per data released by SIAM, passenger car sales declined by 4.21% in February to 1,64,469 units while sales of passenger vehicles (including utility vehicles) went up by 1.68% to 2,34,154 units. The dip in sales resulted from weak consumer sentiments, disruption in supplies in northern India due to the agitation by the Jat community in Haryana and ban on sale of larger diesel vehicles in NCR.

The continuous dip in exports arising from weak global demand is worrisome. February marks the fifteenth consecutive month of lower exports at $20.738 billion, down 5.7% y/y as shipments of petroleum products continued to decline on lower crude oil prices. Engineering goods exports, accounting for ~22% of total exports, has been on a continuous declining trend and the recent imposition of duties on imported steel also hampered this segment further. Though India's economy is primarily domestic demand driven it has also been adversely affected by China's and overall global slowdown. Imports also fell 5% to $27.3 billion on the back of decline in oil imports (down 21.9%, respectively) though non-oil imports remained almost unchanged. Trade deficit during the month contracted to $6.54 billion, the lowest level since September 2013, benefiting from lower oil import bill and curb in gold import (down 30% in February to $1.4 billion). Trade deficit in the previous month and the year-ago period stood at $7.63 billion and $6.74 billion, respectively.

Sector outlook

Banks and NBFCs

With controlled retail inflation and disappointing IIP data, expectation of a rate cut has increased. This is likely to keep the banking and financial stocks firm. In the current scenario when banking stocks are under scrutiny for mounting bad debts, private sector banks such as

Axis and ICICI are better placed with their higher retail exposure (above 40% compared to that of PSBs at ~20%). Meanwhile, the RBI came to the rescue of public sector banks, which are struggling with low capital base, by allowing them to include items such as property value, foreign exchange (with certain restrictions) for calculation of Tier-I capital. NBFCs are likely to outperform Banks especially the PSBs on the back of growing urban and rural consumption, and also implementation of the seventh pay commission. The recent budget has tried to increase the purchasing power of rural India. The government's focus on housing for all (announced additional tax benefits for first-time home buyers), and the Real Estate Bill should act as a positive catalyst for housing finance companies.

Information Technology

In the IT space, apart from Infosys that upgraded FY16 guidance, all others reported flat-to-negative 3Q earnings. Weak client environment likely to keep the growth outlook muted for players such as TCS, HCL Tech and Wipro. Recently Mindtree dropped significantly as it cut its growth outlook for the March quarter. However, the depreciating Rupee is a positive for the sector.

Pharma

Facility inspection by the USFDA of pharma companies and issuance of Form 483 thereafter continue to remain a major overhang of the sector. Almost all the big names such as Dr Reddy's, Sun Pharma have their facilities under scrutiny and the latest in this list includes Lupin, whose Goa facility was inspected recently. Besides the Indian government banned more than 300 fixed dose combination drugs that will negatively impact players such as Abbott, Pfizer, P&G among others.

Automobiles

Automobile sales may take a hit in the coming months as companies have raised prices to pass on the burden of infrastructure cess (up to 4% proposed in the budget). However, continued allocation MGNREGA and infrastructure focus are positive for the auto sector. Players such as Hero Moto Corp, M&M with rural focus should benefit from these initiatives.

Oil and Gas

Talks between Saudi Arabia and Russia aiming at freezing crude output at January level coupled with production cuts in US shale oil resulted in stabilizing oil prices. In a positive development, the government announced a major overhaul of the oil and gas exploration policy the hydrocarbon exploration licensing policy (HELP) to reduce import dependence and help growth. HELP aims to address many of the shortcomings of the existing new exploration licensing policy (NELP). HELP has primarily brought three key changes a single policy governing different hydrocarbons (oil, gas, and coal bed methane), production sharing contract between government and contractors to be governed by revenue sharing model instead of profit-sharing one, and allowing producers to charge competitive price (instead of price being determined by a formula) subject to certain conditions. The new policy makes it a level playing field for private sector entities Reliance Industries and Cairn India.

Infrastructure

During the budget, the Finance Minister laid emphasis on infrastructure sector with a focus on roads and highways as a vehicle for economic development. The government increased its allocation towards this sector and announced that 85% of the 70 stuck road projects have been put back on track; positive news for IRB Infrastructure and Sadbhav Engineering. The government also announced several steps to revitalise PPPs.

Capital Goods

The scenario of the capital goods sector is grim which is evident from the continued dip in capital goods output data. Order inflow guidance remains muted. With muted industrial capex companies manufacturing goods for power, mining, metals such as LT, Thermax, Bhel are likely to remain laggards.

Cement

Fall in energy and freight costs helped the cement players to beat lower realisation during the third quarter. Cement companies in North and Central India raised cement prices in multiple tranches since February, the latest in first week of March. Besides, production cut by players in North led to reduced supply to Gujarat thereby raising prices there. UltraTech cement with pan India presence and Shree Cement should benefit from the price hikes. Meanwhile Ultra Tech Cement plans to buy JP Associates' 22.4 MTPA cement plants in 6 states (UP, MP, HP, Uttarakhand, AP and Karnataka) at EV of Rs 16,500 crores. The deal will give UltraTech entry into newer markets and increase its capacity to ~ 90.7 MTPA.

Chemicals and Agrochemicals

The global crash of crude prices over the last year has benefitted industries that use oil and its derivatives. Input cost of adhesives maker Pidilite and paint companies (Asian Paints, Berger and Kansai Nerolac) that use titanium dioxide, a crude oil derivative has come down benefitting their margins. A possible revival in urban housing construction and home improvement along with robust margin keeps the outlook strong.

Agrochemical firms such as Rallis India, Excel Crop Care, PI Industries depend on monsoon forecast. Timely onset and even distribution of rain is significant that initiates the farming activities. Deficient monsoon for the last there years and the El Nino effect acted as dampeners for agriculture. First official forecast of monsoon from the Indian Meteorological Department (IMD) is expected in April, which will determine performance of agro-chemical players. However, initial input from global agencies indicates weakening of El Nino impact.

Commodities

Hurt by falling prices in international markets along with increased competition from Chinese imports has adversely affected companies like Hindalco, National Aluminium, Tata Steel, Vedanta etc. Besides, weak demand growth and sub-optimal capacity utilisation negatively impacting these companies. Slowdown in China, the largest consumer of metals, resulted in commodity downturn. This is likely to persist as recovery of Chinese economy is unlikely in near future. To compensate the domestic players the government has raised import duties of steel though this is a short term relief, not a solution plaguing the sector.

Conclusion

Amidst the market turmoil and FIIs pulling out funds from emerging markets, Shriram Equity & Debt Opportunities Fund performed at par with the benchmark and with a 1 year capital depreciation of 12.96% in the regular growth scheme accompanied by lower levels of volatility as measured through the beta and standard deviation compared to the market and scheme benchmarks. The fund recorded considerable outperformance over the market with Nifty falling by ~21.51%.

Market will be taking cue from the ongoing budget session of Parliament, where the government will try to bring in two key reforms the goods and service tax (GST) and bankruptcy which are already delayed by quite some time. How far the government will succeed is questionable since disruptions in Parliament might persist due to treatment of Aadhar Bill as money bill, unrest in university campuses and stir regarding the Jat quota bill. Expectation of a rate cut by RBI has increased with controlled inflation and government's pledge to keep fiscal deficit under check. Amidst these short term uncertainties, we try to achieve stable risk adjusted return based on fundamentally sound good quality stocks.

It may be worth mentioning that long term equity investors with a five to seven year horizon should not be perturbed as stable and improving macros (moderate inflation, lower current account deficit, a controlled fiscal deficit and India being one of the largest growing big economies), a very low market cap to GDP ratio that has been constantly falling over the last 7 years, almost reasonable to fair valuations and creating the right conditions to growth is likely to result in a handsome return on equities in the long term. Thus, retail investors would do well to maintain their exposure to large liquid and high quality stocks notwithstanding the slight sacrifice on returns and act through regular small investments for sustainable growth that will outpace inflation.

Partha Ray

Chief Investment Officer

Risk Factors:

All Investments in mutual funds and securities are subject to market risks and the NAV of the Scheme may go up or down depending upon the factors and forces affecting the securities market. There can be no assurance that Scheme's investment objective will be achieved. The past performance of the Mutual Fund is not indicative of the future performance of the Scheme. Sponsor is/are not liable or responsible for any loss or shortfall resulting from the operations of the scheme. Shriram Equity and Debt Opportunities Fund is only the name of the Scheme and does not in any manner indicate the quality of the Scheme or it's future prospects or returns. There is no guarantee or assurance as to any return on investment of the unitholders. The investments made by the Scheme are subject to external risks on transfer, pricing, trading volumes, settlement risks, etc. of securities. Please refer to the Offer Document/Statement of Additional Information/Key Information Memorandum of the scheme before investing.

Shriram Equity and Debt Opportunities Fund

Ideal for whom: Investors who are hesitant of giving full exposure to equities but simultaneously don't want to miss the upside potential offered by equities.

Indicative Investment Horizon:

3 years & more

Date of Inception:

29 November 2013

Fund Manager: Partha Ray

Experience: Mr. Ray has been in the Banking & Finance sector for over 24 years and joins us from The Royal Bank of Scotland N.V where he held several key positions in the Corporate Banking Department since 1998 including that of a Regional Head in the Bank's wholesale banking division. He has extensive and wide ranging functional experience in managing portfolios of corporate relationships.

Investment Objective: The investment objective of the scheme would be to generate long term Capital appreciation and current income with reduced volatility by investing in a judicious mix of a diversified portfolio of equity and Equity related investments, debt and money market instruments

Type: Open-ended Equity Oriented Asset Allocation Scheme

Plans / Options Available

Regular Plan

Direct Plan

Under Each Plan

Growth and Dividend Options

The Dividend Option offers Dividend Payout and Reinvestment facility

Average AUM: 35.20 cr.
Latest AUM: 35.22 cr.

Expenses Ratio (Excluding Stax) :
Regular 2.27% Direct 1.72%

Portfolio Turnover Ratio: 149.74%

Benchmark:

Equity - CNX Nifty (70%)

Debt - Crisil Composite Bond Fund Index (30%)

Loads: No Entry load

Exit load 1.00% is payable if units are redeemed / switched – out within 365 days from the date of allotment

Minimum Investment:

Rs 5,000/- w.e.f. 1st April 2014

SIP

For SIP investment Monthly: Rs. 1000/- minimum 12 instalments, Quarterly: Rs. 3000/- minimum 4 instalments

This Product is suitable for investors who are seeking*:-

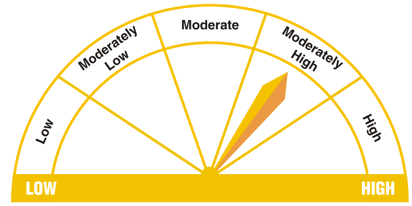
☑ Long term capital appreciation and current income
☑ Investment in equity and equity related securities as well as fixed income securities (debt and money market securities)
☑ Moderately High Risk

*** Investors should consult their financial advisor if in doubt whether the product is suitable for them.**

Note : Risk is represented as :

i. Low - Principal at low risk
ii. Moderately Low - Principal at moderately low risk
iii. Moderate - Principal at moderate risk
iv. Moderately High - Principal at moderately high risk
v. High - Principal at high risk

Riskometer



Portfolio and other facts as on 29 Feb 2016

Equity Portfolio

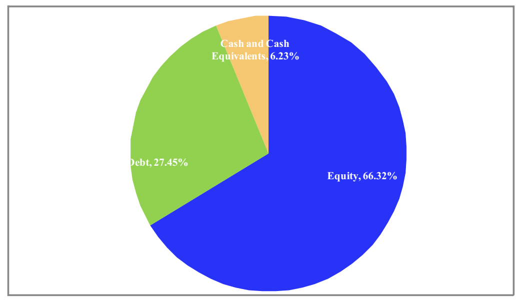
HDFC Bank Ltd.	4.39%
Housing Development Finance Corporation Ltd.	3.56%
Infosys Ltd.	3.37%
HCL Technologies Ltd.	3.32%
Tata Consultancy Services Ltd.	3.15%
Maruti Suzuki India Ltd.	3.10%
LIC Housing Finance Ltd.	3.02%
Axis Bank Ltd.	2.90%
Dr. Reddy's Laboratories Ltd.	2.84%
ICICI Bank Ltd.	2.41%
Aurobindo Pharma Ltd.	2.37%
Kotak Mahindra Bank Ltd.	2.08%
Eicher Motors Ltd.	2.03%
Britannia Industries Ltd.	1.93%
IndusInd Bank Ltd.	1.81%
Apollo Hospitals Enterprise Ltd.	1.76%
Bharat Petroleum Corporation Ltd.	1.66%
Bharat Electronics Ltd.	1.62%
Larsen & Toubro Ltd.	1.54%
State Bank of India	1.29%
ITC Ltd.	1.22%
Ultratech Cement Ltd.	1.19%
Asian Paints Ltd.	1.18%
Amara Raja Batteries Ltd.	1.16%
Reliance Industries Ltd.	1.04%
Tech Mahindra Ltd.	0.93%
Lupin Ltd.	0.87%
Shree Cements Ltd.	0.87%
Mahindra & Mahindra Ltd.	0.84%
Sun Pharmaceuticals Industries Ltd.	0.78%
Natco Pharma Ltd.	0.75%
Bharat Forge Ltd.	0.68%
UPL Ltd.	0.67%
IDFC Bank Ltd.	0.53%
Bata India Ltd.	0.50%
Bajaj Finance Ltd.	0.50%
Bajaj Auto Ltd.	0.44%
MRF Ltd.	0.40%
MindTree Ltd.	0.39%
TVS Motor Company Ltd.	0.29%
Page Industries Ltd.	0.22%
Cummins India Ltd.	0.18%
Blue Dart Express Limited	0.15%
Repco Home Finance Limited	0.13%
Apollo Tyres Ltd.	0.12%
Persistent Systems Ltd.	0.12%
ALKEM LABORATORIES LIMITED	0.02%
Equity Total	**66.32%**

Debt Portfolio / Rating

HDFC LTD	CRISIL-AAA	13.73%
LIC HOUSING FINANCE LTD.	CRISIL-AAA/CARE- AAA	13.13%
TATASONS LTD	CRISIL-AAA	0.59%
Debt total		**27.45%**

Cash & Cash Equivalent 6.23%

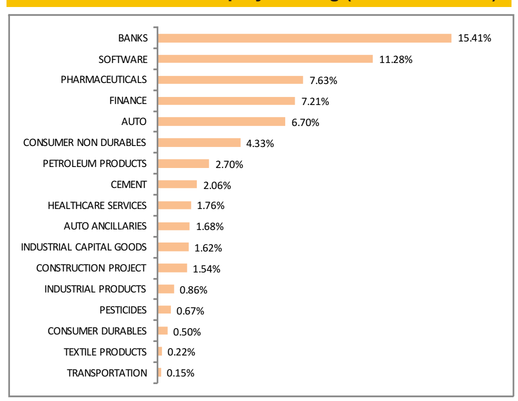
Portfolio composition



NAV details (Rs)

Direct Plan	
Growth Option	11.8245
Dividend Option	9.4345
Regular Plan	
Growth Option	11.6751
Dividend Option	9.3337

Sectoral Allocation of Equity Holding (% of Net Assets)

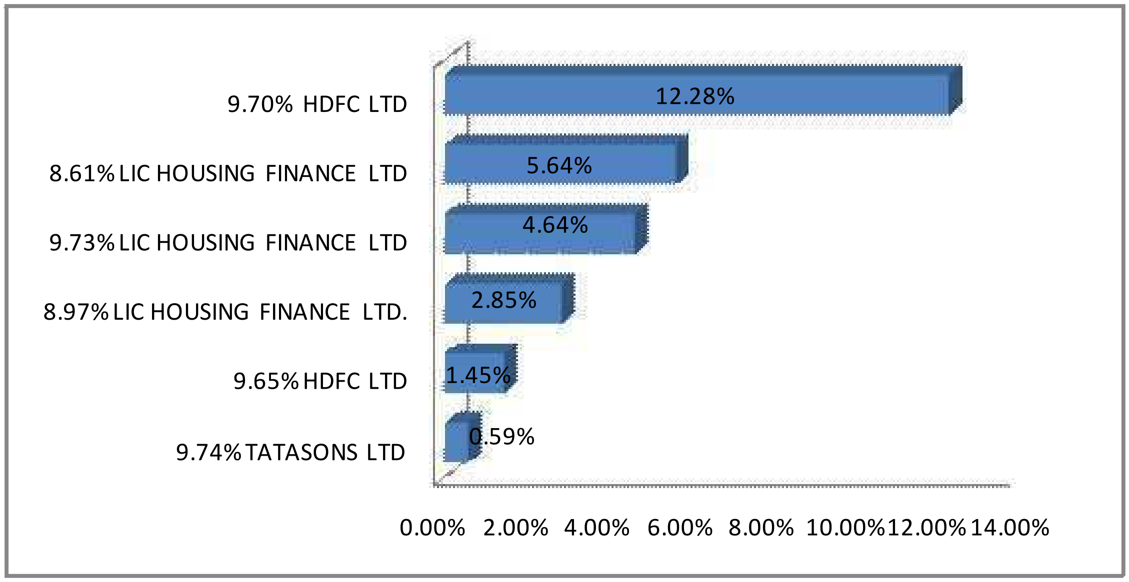


Quantitative Data

Average Maturity *	2.44 years
Modified Duration *	1.99 years
Yeild to Maturity*	8.32%

* Computed on the invested amount for debt portfolio.

Debt Portfolio



Dividend History^

Shriram Equity and Debt Opportunities Fund - Direct Plan- Dividend Option

Record Date	Face Value (Rs)	NAV (Rs)	Dividend (Rs.)/Unit
9-Mar-14	10.00	10.4657	0.25
27-Oct-14	10.00	11.9236	1.05
14-Nov-15	10.00	11.4100	1.15

Shriram Equity and Debt Opportunities Fund - Regular Plan- Dividend Option

Record Date	Face Value (Rs)	NAV (Rs)	Dividend (Rs.)/Unit
19-Mar-14	10.00	10.4529	0.25
27-Oct-14	10.00	11.8794	1.05
14-Nov-15	10.00	11.3130	1.15

^Past performance may or may not be sustained in future. There is no assurance or neither guarantees to Unit holders as to rate/quantum of dividend distribution nor that will the dividends be paid regularly. All dividends are on face value of Rs. 10 per Unit. After payment of the dividend, the per Unit NAV falls to the extent of the payout and statutory levy, if any.

Performance of Scheme:

Shriram Equity and Debt Opportunities Fund

Returns of Regular Plan - Growth Option as on December 31, 2015						
Date of inception: 29-Nov-13.						
NAV as on 31.12.15 Rs. 12.8999						
					Value of Investment of Rs.10000	
Date	Period	NAV (Rs.) Per Unit	Scheme Return % (Annualized)	Benchmark Return % (Annualized)	Scheme	Benchmark
December 31 2014	Last 1 Year	12.9039	-0.03	-0.25	9,997	9,975
November 29 2013	Since Inception	10	12.97	12.34	12,900	12,750

Past performance may or may not be sustained in future. The returns are Compounded Annual Growth Returns (CAGR) for periods since Inception and absolute for 1 year and simple annualized for less than 1 year. Performance of dividend option would be Net of Dividend distribution tax, if any. Benchmark is a blend of 70% CNX NIFTY for the Equity part of the Portfolio & 30% of CRISIL Composite Bond Fund Index for its investments in Debt and Money Market Instruments. For computation of since inception returns (%) the allotment NAV has been taken as Rs. 10.00. Load is not considered for computation of returns. In case, the start/end date of the concerned period is a non business date (NBD), the NAV of the previous date is considered for computation of returns. The NAV per unit shown in the table is as on the start date of the said period.

Benchmark Index: 70% of Nifty Plus 30% CRISIL Composite Bond Fund Index. Since Inception returns are calculated 70% CAGR of Nifty plus 30% CAGR of CRISIL Composite

SIP Performance

	Since Inception SIP	2 years SIP	1 year SIP
Total Amount Invested (Rs.'000)	250.00	240.00	120.00
Mkt Value as on Dec 31, 1 (Rs.'000)	268.46	255.56	117.76
Returns (Annualised) (%)	6.72%	6.16%	-3.43%
Benchmark Returns (Annualised) (%) #	5.50%	4.88%	-3.88%

Past performance may or may not be sustained in the future. # Benchmark index is constructed by investing Rs. 70 in Nifty and Rs. 30 in CRISIL Balanced Fund Index on the date of allotment. Assuming Rs. 10000 invested systematically on the first Business Day of every month over a period of time. CAGR returns are computed after accounting for the cash flow by using XIRR method (invest internal rate of return) for Regular Plan - Growth Option. Load is not taken into consideration for computation of performance. The above investment simulation is for illustrative purpose only and should not be construed as a promise on minimum returns and safeguard of capital. The AMC/Mutual Fund is not guaranteeing or promising or forecasting any returns.

HOW TO READ FACTSHEET

Fund Manager

An employee of the asset management company such as a mutual fund or life insurer, who manages investments of the scheme. He is usually part of a larger team of fund managers and research analysts.

Application Amount for Fresh Subscription

This is the minimum investment amount for a new investor in a mutual fund scheme.

Minimum Additional Amount

This is the minimum investment amount for an existing investor in a mutual fund scheme.

Yield to Maturity

The Yield to Maturity or the YTM is the rate of return anticipated on a bond if held until maturity. YTM is expressed as an annual rate. The YTM factors in the bond's current market price, par value, coupon interest rate and time to maturity.

SIP

SIP or systematic investment plan works on the principle of making periodic investments of a fixed sum. It works similar to a recurring bank deposit. For instance, an investor may opt for an SIP that invests Rs 500 every 15th of the month in an equity fund for a period of three years.

NAV

The NAV or the net asset value is the total asset value per unit of the mutual fund after deducting all related and permissible expenses. The NAV is calculated at the end of every business day. It is the value at which the investor enters or exits the mutual fund.

Benchmark

A group of securities, usually a market index, whose performance is used as a standard or benchmark to measure investment performance of mutual funds, among other investments. Some typical benchmarks include the Nifty, Sensex, BSE200, BSE500, 10-Year Gsec.

Entry Load

A mutual fund may have a sales charge or load at the time of entry and/or exit to compensate the distributor/agent. Entry load is charged at the time an investor purchases the units of a mutual fund.

The entry load is added to the prevailing NAV at the time of investment. For instance, if the NAV is Rs. 100 and the entry load is 1 %, the investor will enter the fund at Rs. 101. (Note: SEBI, vide circular dated June 30, 2009 has abolished entry load and mandated that the upfront commission to distributors will be paid by the investor directly to the distributor, based on his assessment of various factors including the service rendered by the distributor).

Exit Load

Exit load is charged at the time an investor redeems the units of a mutual fund. The exit load is reduced from the prevailing NAV at the time of redemption. The investor will receive redemption proceed at net value of NAV less Exit Load. For instance if the NAV is Rs. 100 and the exit load is 1%, the investor will receive Rs. 99.

Modified Duration

Modified duration is the price sensitivity and the percentage change in price for a unit change in yield.

AUM

AUM or assets under management refers to the recent / updated cumulative market value of investments managed by a mutual fund or any investment firm.

Holdings

The holdings or the portfolio is a mutual fund's latest or updated reported statement of investments/securities. These are usually displayed in terms of percentage to net assets or the rupee value or both. The objective is to give investors an idea of where their money is being invested by the fund manager.

Nature of Scheme

The investment objective and underlying investments determine the nature of the mutual fund scheme. For instance, a mutual fund that aims at generating capital appreciation by investing in stock markets is an equity fund or growth fund. Likewise, a mutual fund that aims at capital preservation by investing in debt markets is a debt fund or income fund. Each of these categories may have sub-categories.

Rating Profile

Mutual funds invest in securities after evaluating their creditworthiness as disclosed by the ratings. A depiction of the mutual fund in various investments based on their ratings becomes the rating profile of the fund. Typically, this is a feature of debt funds.

SHRIRAM
Mutual Fund

Nurturing Trust, Shaping Dreams

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