

# MARKET OUTLOOK AND FUND UPDATE

August 19, 2011

## Equity Market Overview

- As of August 17, 2011, the Nifty index closed at 5,057, down 7.8% MTD while the Sensex Index closed at 16,841 down 7.5% mtd.
- The index of industrial production, or IIP, rose 5.6% in May from a year ago. Manufacturing accounts for about 75.5% overall industrial output. Eight of the 22 manufacturing sectors reported a contraction in output during the month. Production of capital goods, an indicator of investment activity, expanded only 5.9% in May, against 7.3% in the previous month, while that of consumer durables rose 5.2%, compared with 3.7% in April
- Headline inflation eased to its eight-month low at 9.22 per cent in July from 9.44 per cent. The non-food category in primary articles recorded a drop to 15.51 per cent in July from 18.57 per cent in June. The fuel and power category also observed a falling trend, from 12.85 per cent to 12.05 per cent in July.
- Month to date, the economy has seen FII outflows of approx. USD 1bn from equities, while the YTD inflows have been approx. USD 1bn.

## Outlook

- The markets have corrected further, down 3% over the last two weeks taking cues from the global news flows. Calendar YTD the Indian market is down 18%
- Inflation continues to be at elevated levels, though the softening of commodities and crude oil to help the situation going forward
- First quarter results have come below estimates at 14% for the quarter ending June 2011
- YTD FII inflows have been USD 1 bn
- FDI was the strongest during the quarter (June numbers up 310% to \$5.68 bn)
- With this correction, the markets are now trading at less than 14x FY12 earnings which looks attractive
- Fall in global commodities on fears of US and Euro zone recession could benefit India
- IIP data for June was strong at 8.8% vs. 5.9% in May
- With this correction, India's relative valuation is in line with the other developed markets. It has come down from 35% to 2024%

Source: Internal, as on Aug 18, 2011

## Scheme in Focus: DSP BlackRock Balanced Fund

### Portfolio

Asset size: Rs. 751.23 crore as on July 31, 2011

Top 10 Stocks	% to Net Assets	Top 10 Sectors	% to Net Assets
HDFC Bank	4.04%	Banks	6.97%
Housing Development Finance Corporation	3.51%	Industrial Capital Goods	6.36%
Bharat Petroleum Corpn.	2.64%	Pharmaceuticals	6.08%
Hindalco Industries	1.79%	Finance	5.86%
Hindustan Unilever	1.73%	Consumer Non Durables	5.05%
Oil & Natural Gas Corpn	1.65%	Petroleum Products	3.44%
Larsen & Toubro	1.62%	Fertilisers	3.12%
ITC	1.58%	Software	2.89%
Siemens	1.54%	Oil	2.64%
Lupin	1.51%	Auto	2.60%

### Compounded Annualized Returns as on August 16, 2011

Period	DSP BLACKROCK BALANCED FUND	CRISIL BALANCED FUND INDEX <sup>^</sup>
Last 1 year	(3.00%)	(2.42%)
Last 3 year	11.24%	6.55%
Last 5 year	13.79%	8.59%
Since Inception	16.30%	NA#
NAV / Index Value (Aug 16)	₹ 63.387	3,298.76

<sup>^</sup>Benchmark. As per the SEBI standards for performance reporting, the "since inception" returns are calculated on ₹ 10/- invested at inception. For this purpose the inception date is deemed to be the date of allotment (May 27, 1999). The "Returns" shown are for the growth option. #Since historical data for the benchmark is not available, performance has not been compared. **Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments.**

# Fixed Income Overview

- The Benchmark 10 Yr government bond yield rallied from 8.45% pa in the beginning of the month to 8.25% pa as on August 17, 2011
- 3M Bank CD yields moved from around 9.13% pa at the beginning of the month to around 9.18% pa as of August 17, 2011. 12M Bank CD yields moved from 9.80% pa to around 9.63% pa during the same period.
- The index of industrial production, or IIP, rose 5.6% in May from a year ago. Manufacturing accounts for about 75.5% overall industrial output. Eight of the 22 manufacturing sectors reported a contraction in output during the month. Production of capital goods, an indicator of investment activity, expanded only 5.9% in May, against 7.3% in the previous month, while that of consumer durables rose 5.2%, compared with 3.7% in April
- Headline inflation eased to its eight-month low at 9.22 per cent in July from 9.44 per cent. The non-food category in primary articles recorded a drop to 15.51 per cent in July from 18.57 per cent in June. The fuel and power category also observed a falling trend, from 12.85 per cent to 12.05 per cent in July.

## Outlook

- Bond markets continue to be extremely choppy on account of global uncertainties and disintegrating traditional correlations across asset classes such as US sovereign bonds, gold, oil etc
- Inflation still continues to be dominant macro concern of RBI. In most recent prints, inflation components such as food articles and primary articles have been demonstrating a respite. However, non-food manufacturing inflation (proxy for core inflation) continues to be stubborn and sticky. We expect RBI to stay the course on monetary tightening and expect a 25bps hike in the next policy review meeting. We expect benchmark 10Y yield to remain range-bound with a declining bias, yet volatile.
- We expect subsequent monetary tightening to have limited impact on the money market yields in the near term. 1Y tenor of the OIS curve has rallied nearly 50 bps after last RBI rate increase of 50 bps, indicating rates to soften commensurately within next one year horizon.
- We expect liquidity to worsen due to festival related withdrawals and inflation as well as growth to moderate by 1Q 2012. Softening crude prices and adequate rains could provide just the catalysts needed to attain price stability going forward. However, fiscal deficit will continue to weigh on the sentiment.

Source: Internal, as on Aug 17, 2011

## Positioning of our Fixed Income Schemes as on August 16, 2011

	AUM Rs. crore	Fixed rate instruments	Floating rate instruments	Securitized debt	Money market instruments	Cash and equivalent	Modified duration (years)
DSP BlackRock Liquidity Fund	2,560.87	11.85%	0.00%	0.00%	89.87%	(1.72%)	0.12
DSP BlackRock Money Manager Fund	2,682.41	15.73%	1.27%	0.01%	77.52%	5.47%	0.26
DSP BlackRock Floating Rate Fund	500.18	27.32%	0.00%	0.00%	62.65%	10.03%	0.58
DSP BlackRock Short Term Fund	563.76	45.25%	0.18%	1.13%	50.04%	3.40%	1.34
DSP BlackRock Bond Fund	41.00	99.39%	0.00%	1.66%	0.00%	(1.07%)	3.58
DSP BlackRock Strategic Bond Fund	686.06	37.78%	1.50%	0.00%	52.24%	8.48%	1.75

## Scheme in Focus: DSP BlackRock Short Term Fund

Portfolio Construct*	% of Net Assets
Certificates of Deposit	40.94%
Commercial Paper	11.16%
Securitized Debt Instruments	1.24%
Bonds & NCDs	42.01%
Cash & Equivalent	4.65%

Modified Duration: 1.32 years, Average Maturity: 1.63 years  
\*Data as on July 31, 2011.

Rating Profile*	% of Net Assets
AAA	8.93%
AA+	18.31%
AA	11.40%
AA-	1.86%
A1+ / P1+ / PR1+ / F1+	54.85%
CASH & EQUIVALENT	4.65%

\*Data as on July 31, 2011. All corporate ratings are assigned by rating agencies like CRISIL, CARE, ICRA, FITCH etc.

## Compounded Annualised Returns as on August 16, 2011

PERIOD	DSP BLACKROCK SHORT TERM FUND	CRISIL LIQUID FUND INDEX <sup>^</sup>
Last 1 Year	7.73%	7.48%
Last 3 Years	6.40%	6.24%
Last 5 Years	6.69%	6.62%
Since Inception	6.34%	5.79%
NAV / Index Value (Aug 16)	₹ 17.3193	1,705.20

<sup>^</sup>Benchmark. Returns < 1 year are absolute returns. "Since inception" returns are calculated on ₹ 10/- invested at inception, viz. date of allotment (Sept 09, 2002). All returns are for Regular Plan - Growth Option. **Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments.**

**DSP BlackRock Balanced Fund (DSPBRBaIF)** is an open ended balanced Scheme, seeking to generate long term capital appreciation and current income from a portfolio constituted of equity and equity related securities as well as fixed income securities (debt and money market securities). **Asset Allocation:** Equity & equity related securities: 65%-75%; Debt, Securitised Debt and Money market securities: 25% - 35%. **Features:** Declaration of NAV on all Business Days. Redemption normally within 3 Business Days. Sale and Redemption of Units on all Business Days at Purchase Price and Redemption Price respectively. Minimum Investment: Rs. 5000/- . Entry load: - NIL. Exit load: Holding Period < 12 months: 1%, Holding Period >= 12 months: NIL. **DSP BlackRock Bond Fund (DSPBRBF)** is an open ended income Scheme, seeking to generate an attractive return, consistent with prudent risk, from a portfolio which is substantially constituted of high quality debt securities, predominantly of issuers domiciled in India. As a secondary objective, the Scheme will seek capital appreciation. **Asset Allocation:** Debt & money market securities: 100% (Debt securities may include securitised debts upto 50% of net assets). **Features:** Sale and redemption of Units on all Business Days at Purchase Price and Redemption Price. Minimum Investment - Rs. 5,000/- and Rs.1000/- thereafter. Entry Load: Nil; Exit Load - For holding period <= 6 months : 0.50% and for holding period > 6 months : Nil. Declaration of NAV on all Business Days. Redemption normally within 3 Business Days. **DSP BlackRock Strategic Bond Fund (DSPBRBSBF)** is an open ended income scheme, seeking to generate optimal returns with high liquidity through active management of the portfolio by investing in high quality debt and money market securities. **Asset Allocation:** Money market securities and/or Debt securities with residual or average maturity of less than or equal to 367 days or put options within a period not exceeding 367 days: 0% - 100%; Debt securities which have residual or average maturity of more than 367 days: 0% - 100% (Debt Instruments may include securitised debts up to 75% of the net assets). **Features:** Minimum investment: Regular Plan - Rs. 5,000/- and Rs.1000/- thereafter, Institutional Plan - Rs. 1 crore and Rs.1000/- thereafter. Declaration of NAV on all Business Days. For Holding period from the date of allotment: <= 7 calendar days: 0.10%, > 7 calendar days: Nil. Redemption normally within 3 Business Days. **DSP BlackRock Short Term Fund (DSPBRSTF)** is an open ended income Scheme, seeking to generate income commensurate with prudent risk, from a portfolio constituted of money market securities, floating rate debt securities and debt securities. **Asset Allocation:** Money market securities, floating rate debt securities whose coupon(s) are reset at least once a year, fixed rate debt securities having an average or residual maturity <= 367 days or having put options within a period not exceeding 367 days: 50%-100% (Floating rate debt securities will include fixed rate debt securities swapped for floating rate returns by using derivatives); Fixed rate debt securities having a residual or average maturity > 367 days and floating rate debt securities where the next reset date is more than 367 days from the date of purchase: 0%-50% (Debt securities may include securitised debts up to 60% of the net assets). **Features:** For holding period <= 6 months : 0.50% and for holding period > 6 months : Nil. Sale and redemption of Units on all Business Days at Purchase Price and Redemption Price. Switching facility subject to prevailing terms of the relevant schemes. SWP and STP facilities available. Minimum investment - Rs. 5,000/- and Rs.1000 thereafter. Declaration of NAV on all Business Days. Redemption normally within 1 Business Day. **DSP BlackRock Floating Rate Fund (DSPBRFRF)** is an open ended income Scheme, seeking to generate interest income through investments in acceptable floating rate assets commensurate with the credit risk. The Scheme may also invest in fixed rate debt securities. **Asset Allocation:** Floating rate debt securities\* or money market securities: 65% to 100%; Fixed rate debt securities: 0% to 35% (Debt securities may include securitised debts upto 60% of the net assets). **Features:** No entry/exit load. Sale and redemption of Units on all Business Days at Purchase Price and Redemption Price. Switching facility subject to prevailing terms of the scheme. SWP and STP facilities available in each plan of the scheme. Minimum investment - Regular Plan - Rs. 5,000 and Rs.1000/- thereafter; Institutional Plan - Rs. 1 crore and Rs.1000/- thereafter. Declaration of NAV on all Business Days. Redemption normally within 2 Business Days. Nomination facility available, subject to applicable conditions as per the Statement of Additional Information (SAI) and Scheme Information Document (SID). **DSP BlackRock Liquidity Fund (DSPBRLF)** is an open ended income Scheme, seeking to generate a reasonable return commensurate with low risk and a high degree of liquidity, from a portfolio constituted of money market securities and high quality debt securities. **Asset Allocation:** Money market securities and/or Debt securities\* with maturity of 91 days - 80% - 100% (\* Debt securities may include securitised debts upto 30% of the net assets.) **Features:** No entry/exit load. Sale and redemption of Units on all Business Days at Purchase Price and Redemption Price. Switching facility subject to prevailing terms of the scheme. SWP and STP facilities available in each plan of the scheme. Minimum investment - Regular Plan - Rs. 5,000 and Rs.1000/- thereafter; Institutional Plan - Rs. 1 crore and Rs.1000/- thereafter. Declaration of NAV on all days. Redemption normally 1 Business Day. Previous day NAV applicable for all applications received prior to cut off time subject to specified conditions. **DSP BlackRock Money Manager Fund (DSPBRMMF)** is an open ended income Scheme, seeking to generate reasonable returns commensurate with low risk and a high degree of liquidity, from a portfolio constituted of money market securities and high quality debt securities. **Asset Allocation:** Money market securities and/or debt securities which at the time of purchase have residual or average maturity of less than or equal to 367 days or have put options within a period not exceeding 367 days: 65%-100%; Debt securities, which, at the time of purchase have residual or average maturity of more than 367 days: 0%-50% (Debt securities may include securitised debts up to 75% of net assets). **Features:** No entry/exit load. Sale and redemption of Units on all Business Days at Purchase Price and Redemption Price. Switching facility subject to prevailing terms of the scheme. SWP and STP facilities available in each plan of the scheme. Minimum investment - Regular Plan - Rs. 5,000 and Rs.1000/- thereafter; Institutional Plan - Rs. 1 crore and Rs.1000/- thereafter. Declaration of NAV on all Business Days. Redemption normally within 3 Business Days. Nomination facility available, subject to applicable conditions as per the Statement of Additional Information (SAI) and Scheme Information Document (SID). **Statutory Details:** DSP BlackRock Mutual Fund was set up as a Trust and the settlors/sponsors are DSP ADIKO Holdings Pvt. Ltd. & DSP HMK Holdings Pvt. Ltd. (collectively) and BlackRock Inc. (Combined liability restricted to Rs. 1 lakh). **Trustee:** DSP BlackRock Trustee Company Pvt. Ltd. **Investment Manager:** DSP BlackRock Investment Managers Pvt. Ltd. **Risk Factors:** Mutual funds, like securities investments, are subject to market and other risks and there can be no assurance that the Scheme's objectives will be achieved. As with any investment in securities, the NAV of Units issued under the Scheme can go up or down depending on the factors and forces affecting capital markets. Past performance of the sponsor/AMC/mutual fund does not indicate the future performance of the Scheme. Investors in the Scheme are not being offered a guaranteed or assured rate of return. Each Scheme/Plan is required to have (i) minimum 20 investors and (ii) no single investor holding >25% of corpus. If the aforesaid point (i) is not fulfilled within the prescribed time, the Scheme/Plan concerned will be wound up and in case of breach of the aforesaid point (ii) at the end of the prescribed period, the investor's holding in excess of 25% of the corpus will be redeemed as per SEBI guidelines. **The names of the Schemes do not in any manner indicate the quality of the Schemes, their future prospects or returns.** For scheme specific risk factors, please refer the Scheme Information Document (SID). For more details, please refer the Key Information Memorandum cum Application Forms, which are available on the website, [www.dspblackrock.com](http://www.dspblackrock.com), and at the ISCs/Distributors. Please read the Scheme Information Document and Statement of Additional Information carefully before investing.



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