MONTHLY NEWSLETTER – JULY 2015

I-CAN FINANCIAL SOLUTIONS

MARKET UPDATE

Sensex : Down 0.17% Nifty : Down 0.77%	
Best performing sector: Media & Entertainment (1.8%)	Worst performing sector: Auto (-3.5%)
Best performing global index: Brazilian Bovespa (0.6%)	Worst performing global index: Chinese Shanghai Composite (-7.3%)
Indian Rupee: -0.2%	Gold price: -0.94%

Greece crisis remained a major headwind in the later part of June. The country missed the 30th June deadline to repay roughly 1.6 billion Euros, or $1.8 billion, to the International Monetary Fund.

FIIs were net sellers in the equity market in June with an outflow of Rs. 3,344.44 crore. In the debt market the net inflow was Rs. 1,736 crore. Wholesale price inflation continued its downward journey in May falling by 2.36%. CPI inflation was 5% in May. HSBC Manufacturing PMI fell to 51.3 in June compared to 52.6 in May. The southwest monsoon covered the entire country on 26th June – way ahead of its schedule. The normal date is 15th July. India's foreign exchange reserves crossed $355 billion for the first time by end of June.

On the reforms front, RBI has allowed banks to borrow from international financial institutions for general banking business without seeking its permission. Undeterred by resistance from trade unions, the Employees' Provident Fund Organization (EPFO) said it will start investing in equity markets next month, as part of a reform drive aimed at boosting the economy.

Despite global concerns over Greece, India remains a favored destination for investors. Global investors may have reduced their exposure to emerging market equities but India still continues to be the most favored country, says a report released in June by Bank of America Merrill Lynch.

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NATIONAL PENSION SYSTEM

The National Pension System (NPS) is a defined-contribution pension system operated by the Government of India. In 2004, the Government of India decided to move from a **defined-benefit pension system to a defined-contribution pension system.** Apart from offering a range of investment options to employees, the scheme allows individuals to make decisions about where their pension fund is invested, permits limited withdrawal prior to retirement and reduces the total pension liabilities of the Government of India. The pension scheme is administered on behalf of the government by the Pension Fund Regulatory and Development Authority (PFRDA).

The scheme is structured in two tiers:

1) **Tier – 1:** A tier-1 account is a basic retirement pension account available to all citizens from 1 May 2009. It does not permit withdrawal of funds before retirement.

2) **Tier – 2:** A tier-2 account is a Prospective payment system (PPS) account that permits some withdrawal of pension prior to retirement under exceptional circumstances, usually related to the provision of health care.

INVESTMENT

1) **Choice of Fund Manager:** Subscriber has to indicate preference of Fund Manager to manage his funds.

2) **Choice of Investment Options:** Investments will be made in the following 3 asset classes:-

CLASS OF FUND	WHERE THEY INVEST	RISK
Asset Class E	Investments in predominantly equity market instruments.	Carry market risk like any large cap equity fund.
Asset Class C	Investment in fixed income instruments other than Govt. securities	Good choice of companies means default risk is low.
Asset Class G	Investments in Govt. securities	No default risk, but long term bonds are volatile.

ASSET CLASS COMBINATIONS

1) Auto Choice: Investments will be made like life-cycle funds. At the age of 18 years, the asset allocation would be 50% in E Class, 30% in C Class and 20% in G Class. This will start changing from the age of 36. And at the age of 55 years, it would be 10% in E Class, 10% in C Class and 80% in G Class.

2) Active Choice: The Subscriber has an option to choose a Fund Manager and actively decide the ratio in which his / her funds to be invested among the 3 asset classes. However, not more than 50% can be invested in E Class.

BENEFITS OF NPS

Some of the benefits of the National Pension System (NPS) are:

- **It is transparent**: NPS is transparent and cost effective system wherein the pension contributions are invested in the pension fund schemes and the employee will be able to know the value of the investment on day to day basis.
- **It is simple:** All the subscriber has to do is to open an account with his/her nodal office and get a Permanent Retirement Account Number (PRAN).
- **It is regulated**: NPS is regulated by PFRDA and is regularly monitored.
- **It is portable**: operate your account from anywhere in the country.
- **It is voluntary**: you can choose the amount you want to save and set aside every year.
- **It is flexible**: choose your own investment option.
- **It is Exempt from Tax:** Presently, the tax treatment for contribution made in Tier I account is Exempted-Exempted-Taxed (EET)
- **Additional Deduction:** Finance Minister has provided for an additional deduction of Rs. 50,000/- for contribution towards NPS Account. This is in addition to the existing limit of Rs. 1,50,000/-

CRITICAL ILLNESS COVER

A Critical Illness cover is an insurance policy which offers a lump sum payment in the unfortunate event of the insured person being diagnosed with any of the serious illnesses covered by the policy. Examples of such illnesses include heart attack, stroke, certain types of cancer, multiple sclerosis and so on.

Why do you need a critical illness cover?

- Your traditional health insurance may not cover these diseases.
- The health insurance plan you already own usually has caps on doctors' fees, medicine expenses, Intensive Care Unit etc, hence won't cover the full cost of the treatment
- Certain acute illnesses lead to loss of income, total or partial disability and the financial burden can be very high.
- It serves as a supplement to your health insurance plan.

What should you keep in mind when choosing a critical illness policy:

- List of critical illnesses incorporated in the plan and the list of illnesses excluded
- Non-claim benefits and renewal bonus
- Claim Process – formalities and documents involved
- Most plans have a survival period clause says the insured must survive for at least 30 days after he or she is diagnosed with any critical illness to file the claim. Some plans do not have this clause.
- Age and medical history should be taken into account to decide the appropriate sum insured. Older people should buy higher sum insured.
- You can either go for a Standalone Policy or Rider: While a critical illness plan can be bought as a standalone policy, critical illness riders are typically clubbed with life or health insurance plans. Generally, a standalone policy offers more flexibility in choosing the sum insured and larger covers compared to riders. The limit on sum insured under a rider is usually the same as the base policy. A Standalone policy will usually cost more as it comes with the option to opt for a higher sum insured.
- Pay attention to sub-limits, if any
- Policy tenure

Equity Outlook: IDFC Asset Management

While the Greece issue is the focus of the market at the moment, it is important to understand its impact on Indian markets. Greece is not a big trade partner for India and neither do Indian corporates have any meaningful direct exposure to the country. So there may not be any direct impact on India. However, indirect impact may be a little difficult to quantify. In a risk-off trade, India might see portfolio flows moving away from the country in the short term. In line with that we saw a net FII outflow of US$417m from Indian markets in the month of June. Still, on YTD basis, FIIs flow to Indian market stands at US$6.5bn implying that the FIIs have not been in a hurry to sell. A positive side of the argument is that easy money vanishing from the system may normalize sky high valuations of a few stocks and make the market less susceptible to volatility. Second indirect impact of the crisis is weaker currency. However, India is in much better macro-economic condition than in past and is better equipped to deal with sharp volatility in currency than ever before. And that is reflected in a stable rupee during the month inspite of the volatility. However, it is difficult to predict short term currency movement and that remains a risk.

On domestic front, monsoon had been a big worry as second consecutive year of below average rainfall could impact the economy severely. However monsoon so far has been good with rainfall being 10% above normal till 18 June 2015. Although, it is still early days, and July will be a crucial month for sowing, we are comfortable with the current state.

We are also seeing some green shoots of recovery in capex with select sectors seeing increased order inflows. While the private sector capex remains low, government and PSU companies are spending and sectors like Road, T&D, Defense and Renewable Power are witnessing spurt in activity. It is important to identify these sub-segments in the overall challenging environment as given the right execution; many of these businesses can deliver outsized returns.

While the overall environment remains weak, we are seeing pockets of opportunities across sectors.

Debt Outlook: Amit Tripathi (Head of Fixed Income, Reliance Capital Asset Management)

Starting in May, volatility has continued for most part of the month of June. While the market G-sec yield has settled within a range 7.80 to 8.05, yet we have seen a lot of volatility within the debt sub-asset classes during June. This is due to news which is non-domestic markets especially Euro zone as well as political development. Another factor has been some amount of demand and supply mismatch in the government security market. There has been an improvement in structural liquidity conditions. Rather than being a provider of liquidity RBI has become an absorber of liquidity. The biggest impact of liquidity has been in the short to medium end of the yield curve (like 2 to 3 year bonds and money market instruments yields seen remaining stable or coming down). India is one of the strongest macroeconomic stories and that has not changed. The fiscal data has improved. Inflation is reasonably under control. Some of the monsoon worries were addressed in the month of June. In an eventuality that monsoon is not good the government will come up with excellent supply side responses - which was visible last year also and food inflation will remain under control. Liquidity, fiscal discipline and inflation point to the fact that we will see softening interest rates. We expect 50 to 75 basis points rate cut in the next 6 to 18 months. The timing does not matter as much as the direction matters. We are very bullish on credit funds.

Did you know?

The Bombay Stock Exchange is the oldest exchange in Asia. It is the world's 10th largest stock exchange by market capitalization at $1.7 trillion as on 23 January 2015 with more than 5,000 companies listed!

Cartoon of the Month