

# Quick Glance - Funds Performance

(Funds with AUM of more than ₹125 crores as on 31<sup>st</sup> August 2016)

IN THIS POLICY, THE INVESTMENT RISK IN INVESTMENT PORTFOLIO IS BORNE BY THE POLICYHOLDER.

## Investment Report

The month of August 2016 saw the benchmark index S&P BSE Sensex gain 1.4% while Nifty 50 gained 1.7%. The Mid-cap index, Nifty Free Float Mid-cap 100 surged 4% during the same period.

## Equity Funds

### Equity Fund (ULIF 001 04/02/04 TEL 110)

#### Fund Details

**Investment Objective** : The primary investment objective of the Fund is to generate long term capital appreciation from a portfolio that is invested predominantly in equity and equity linked securities.

**NAV as on 31 August, 16** : ₹52.4881

**Benchmark** : S&P BSE Sensex - 100%

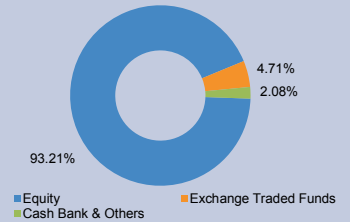
**Corpus as on 31 August, 16**: ₹1,482.95 Crs.

#### Fund Performance

PERIOD	DATE	NAV	S&P BSE Sensex	NAV Change	INDEX Change
Last 3 Months	31-May-16	48.5232	26667.96	8.17%	6.69%
Last 6 Months	29-Feb-16	41.9513	23002.00	25.12%	23.69%
Last 1 Year	31-Aug-15	47.2239	26283.09	11.15%	8.25%
Last 2 Years	28-Aug-14	47.0457	26638.11	5.63%	3.35%
Last 3 Years	30-Aug-13	32.4111	18619.72	17.43%	15.18%
Last 4 Years	31-Aug-12	30.0375	17429.56	14.97%	13.03%
Last 5 Years	30-Aug-11	29.4154	16676.75	12.28%	11.28%
Since Inception	02-Mar-04	10.0000	5823.17	14.18%	13.52%

Note : The investment income and prices may go down as well as up. "Since Inception" and returns above "1 Year" are calculated as per CAGR.

#### Asset Allocation



### Whole Life Mid-Cap Equity Fund (ULIF 009 04/01/07 WLE 110)

#### Fund Details

**Investment Objective** : The primary investment objective of the Fund is to generate long term capital appreciation from a portfolio that is invested predominantly in Mid Cap Equity and Mid Cap Equity linked securities.

**NAV as on 31 August, 16** : ₹37.9655

**Benchmark** : Nifty Free Float Midcap 100 -100%

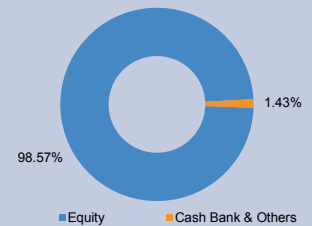
**Corpus as on 31 August, 16**: ₹2,069.50 Crs.

#### Fund Performance

PERIOD	DATE	NAV	Nifty Free Float Midcap 100	NAV Change	INDEX Change
Last 3 Months	31-May-16	32.6589	13292.65	16.25%	15.63%
Last 6 Months	29-Feb-16	27.4174	11558.70	38.47%	32.98%
Last 1 Year	31-Aug-15	32.3614	13059.10	17.32%	17.70%
Last 2 Years	28-Aug-14	24.1727	11114.05	25.32%	17.60%
Last 3 Years	30-Aug-13	13.9771	6589.80	39.53%	32.62%
Last 4 Years	31-Aug-12	13.5671	7065.85	29.34%	21.45%
Last 5 Years	30-Aug-11	12.9666	7294.75	23.97%	16.07%
Since Inception	08-Jan-07	10.0000	5156.45	14.82%	11.98%

Note : The investment income and prices may go down as well as up. "Since Inception" and returns above "1 Year" are calculated as per CAGR.

#### Asset Allocation



### Large Cap Equity Fund (ULIF 017 07/01/08 TLC 110)

#### Fund Details

**Investment Objective** : The primary investment objective of the Fund is to generate long term capital appreciation from a portfolio that is invested predominantly in equity and equity linked securities.

**NAV as on 31 August, 16** : ₹19.4441

**Benchmark** : Nifty 50 -100%

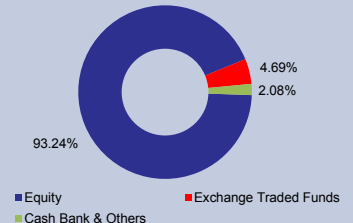
**Corpus as on 31 August, 16**: ₹745.78 Crs.

#### Fund Performance

PERIOD	DATE	NAV	Nifty 50	NAV Change	INDEX Change
Last 3 Months	31-May-16	17.9761	8160.10	8.17%	7.67%
Last 6 Months	29-Feb-16	15.6195	6987.05	24.49%	25.75%
Last 1 Year	31-Aug-15	17.5778	7971.30	10.62%	10.22%
Last 2 Years	28-Aug-14	16.8905	7954.35	7.29%	5.10%
Last 3 Years	30-Aug-13	11.4223	5471.80	19.40%	17.10%
Last 4 Years	31-Aug-12	10.5689	5258.50	16.46%	13.69%
Last 5 Years	30-Aug-11	9.9934	5001.00	14.24%	11.93%
Since Inception	07-Jan-08	10.0000	6279.10	7.99%	3.96%

Note : The investment income and prices may go down as well as up. "Since Inception" and returns above "1 Year" are calculated as per CAGR.

#### Asset Allocation



### Future Equity Pension Fund (ULIF 020 04/02/08 FEP 110)

#### Fund Details

**Investment Objective** : The primary investment objective of the Fund is to generate long term capital appreciation from a portfolio that is invested predominantly in equity and equity linked securities.

**NAV as on 31 August, 16** : ₹22.0309

**Benchmark** : Nifty 50 -100%

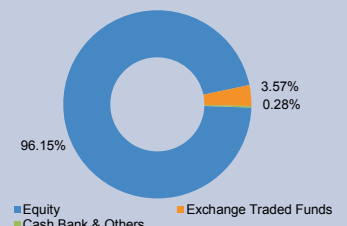
**Corpus as on 31 August, 16**: ₹139.77 Crs.

#### Fund Performance

PERIOD	DATE	NAV	Nifty 50	NAV Change	INDEX Change
Last 3 Months	31-May-16	20.3721	8160.10	8.14%	7.67%
Last 6 Months	29-Feb-16	17.4530	6987.05	26.23%	25.75%
Last 1 Year	31-Aug-15	19.7197	7971.30	11.72%	10.22%
Last 2 Years	28-Aug-14	18.2948	7954.35	9.74%	5.10%
Last 3 Years	30-Aug-13	12.4998	5471.80	20.79%	17.10%
Last 4 Years	31-Aug-12	11.7238	5258.50	17.08%	13.69%
Last 5 Years	30-Aug-11	11.3836	5001.00	14.12%	11.93%
Since Inception	04-Feb-08	10.0000	5463.50	9.65%	5.69%

Note : The investment income and prices may go down as well as up. "Since Inception" and returns above "1 Year" are calculated as per CAGR.

#### Asset Allocation



# Quick Glance - Funds Performance

(Funds with AUM of more than ₹125 crores as on 31<sup>st</sup> August 2016)

## Select Equity Fund (ULIF 024 06/10/08 TSE 110)

### Fund Details

**Investment Objective** : The primary investment objective of the fund is to provide income distribution over a period of medium to long term while at all times emphasizing the importance of capital appreciation. The fund will invest significant amount in equity and equity linked instruments specifically excluding companies predominantly dealing in Gambling, Lotteries/Contests, Animal Produce, Liquor, Tobacco, Entertainment (Films, TV etc) Hotels, Banks and Financial Institutions.

**NAV as on 31 August, 16** : ₹35.9163

**Benchmark** : Nifty500 Shariah - 100%

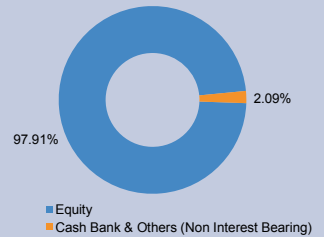
**Corpus as on 31 August, 16** : ₹153.49 Crs.

### Fund Performance

PERIOD	DATE	NAV	Nifty500 Shariah	NAV Change	INDEX Change
Last 3 Months	31-May-16	32.1681	2157.31	11.65%	10.05%
Last 6 Months	29-Feb-16	28.9373	1920.82	24.12%	23.60%
Last 1 Year	31-Aug-15	33.2521	2149.92	8.01%	10.43%
Last 2 Years	28-Aug-14	28.5901	1944.65	12.08%	10.49%
Last 3 Years	30-Aug-13	18.8868	1369.32	23.89%	20.14%
Last 4 Years	31-Aug-12	17.5326	1248.38	19.64%	17.43%
Last 5 Years	30-Aug-11	16.5962	1184.94	16.70%	14.91%
Since Inception	06-Oct-08	10.0000	844.46	17.55%	13.97%

Note : The investment income and prices may go down as well as up. "Since Inception" and returns above "1 Year" are calculated as per CAGR.

### Asset Allocation



## Super Select Equity Fund (ULIF 035 16/10/09 TSS 110)

### Fund Details

**Investment Objective** : The primary investment objective of the fund is to provide income distribution over a period of medium to long term while at all times emphasizing the importance of capital appreciation. The fund will invest significant amount in equity and equity linked instruments specifically excluding companies predominantly dealing in Gambling, Lotteries/Contests, Animal Produce, Liquor, Tobacco, Entertainment (Films, TV etc) Hotels, Banks and Financial Institutions.

**NAV as on 31 August, 16** : ₹24.0675

**Benchmark** : Nifty500 Shariah - 100%

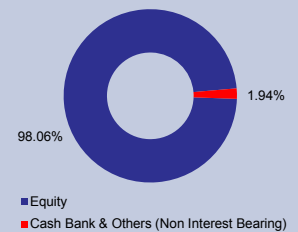
**Corpus as on 31 August, 16** : ₹629.62 Crs.

### Fund Performance

PERIOD	DATE	NAV	Nifty500 Shariah	NAV Change	INDEX Change
Last 3 Months	31-May-16	21.4762	2157.31	12.07%	10.05%
Last 6 Months	29-Feb-16	19.2530	1920.82	25.01%	23.60%
Last 1 Year	31-Aug-15	22.2235	2149.92	8.30%	10.43%
Last 2 Years	28-Aug-14	18.8091	1944.65	13.12%	10.49%
Last 3 Years	30-Aug-13	12.3348	1369.32	24.96%	20.14%
Last 4 Years	31-Aug-12	11.4233	1248.38	20.48%	17.43%
Last 5 Years	30-Aug-11	10.9066	1184.94	17.15%	14.91%
Since Inception	16-Oct-09	10.0000	1217.76	13.62%	10.19%

Note : The investment income and prices may go down as well as up. "Since Inception" and returns above "1 Year" are calculated as per CAGR.

### Asset Allocation



## Top 200 Fund (ULIF 027 12/01/09 ITT 110)

### Fund Details

**Investment Objective** : The Top 200 fund will invest primarily in select stocks and equity linked instruments which are a part of BSE 200 Index with a focus on generating long term capital appreciation. The fund will not replicate the index but aim to attain performance better than the performance of the Index. As a defensive strategy arising out of market conditions, the scheme may also invest in debt and money market instruments.

**NAV as on 31 August, 16** : ₹36.6945

**Benchmark** : S&P BSE 200 - 100%

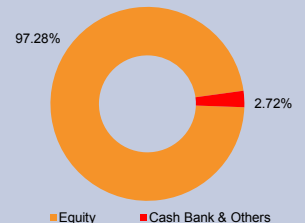
**Corpus as on 31 August, 16** : ₹128.35 Crs.

### Fund Performance

PERIOD	DATE	NAV	S&P BSE 200	NAV Change	INDEX Change
Last 3 Months	31-May-16	32.8820	3442.76	11.59%	9.46%
Last 6 Months	29-Feb-16	28.1223	2946.82	30.48%	27.89%
Last 1 Year	31-Aug-15	32.5038	3368.42	12.89%	11.88%
Last 2 Years	28-Aug-14	28.4015	3233.65	13.67%	7.96%
Last 3 Years	30-Aug-13	18.2448	2167.96	26.23%	20.24%
Last 4 Years	31-Aug-12	17.7537	2124.06	19.90%	15.41%
Last 5 Years	30-Aug-11	17.2068	2061.08	16.35%	12.83%
Since Inception	12-Jan-09	10.0000	1091.37	18.55%	17.61%

Note : The investment income and prices may go down as well as up. "Since Inception" and returns above "1 Year" are calculated as per CAGR.

### Asset Allocation



## Balanced Funds

### Aggressive Growth Fund (ULIF 006 01/07/06 TAL 110)

#### Fund Details

**Investment Objective** : The primary investment objective of the fund is to maximize the returns with medium to high risk.

**NAV as on 31 August, 16** : ₹26.7398

**Benchmark** : S&P BSE Sensex - 65%, CRISIL Composite Bond Index - 35%

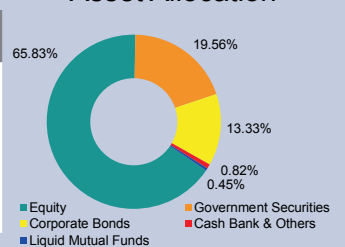
**Corpus as on 31 August, 16** : ₹168.29 Crs.

#### Fund Performance

PERIOD	DATE	NAV	NAV Change	INDEX Change
Last 3 Months	31-May-16	24.7830	7.90%	5.93%
Last 6 Months	29-Feb-16	22.0964	21.01%	18.20%
Last 1 Year	31-Aug-15	23.7072	12.79%	9.48%
Last 2 Years	28-Aug-14	22.1274	9.93%	6.35%
Last 3 Years	30-Aug-13	15.8852	18.96%	14.03%
Last 4 Years	31-Aug-12	15.4886	14.63%	11.85%
Last 5 Years	30-Aug-11	14.9146	12.39%	10.64%
Since Inception	01-Jul-06	10.0000	10.15%	9.33%

Note : The investment income and prices may go down as well as up. "Since Inception" and returns above "1 Year" are calculated as per CAGR.

#### Asset Allocation



### Whole Life Aggressive Growth Fund (ULIF 010 04/01/07 WLA 110)

#### Fund Details

**Investment Objective** : The primary investment objective of the fund is to maximize the returns with medium to high risk.

**NAV as on 31 August, 16** : ₹26.8143

**Benchmark** : Nifty 50 - 65%, CRISIL Composite Bond Index - 35%

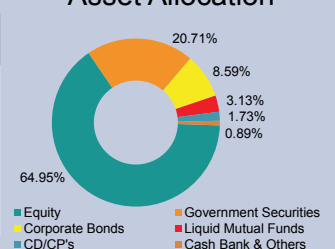
**Corpus as on 31 August, 16** : ₹353.39 Crs.

#### Fund Performance

PERIOD	DATE	NAV	NAV Change	INDEX Change
Last 3 Months	31-May-16	24.8160	8.05%	6.57%
Last 6 Months	29-Feb-16	21.9366	22.24%	19.54%
Last 1 Year	31-Aug-15	23.5710	13.76%	10.76%
Last 2 Years	28-Aug-14	21.6215	11.36%	7.49%
Last 3 Years	30-Aug-13	15.4806	20.10%	15.27%
Last 4 Years	31-Aug-12	14.7335	16.15%	12.28%
Last 5 Years	30-Aug-11	13.9471	13.97%	11.07%
Since Inception	08-Jan-07	10.0000	10.76%	8.39%

Note : The investment income and prices may go down as well as up. "Since Inception" and returns above "1 Year" are calculated as per CAGR.

#### Asset Allocation



# Quick Glance - Funds Performance

(Funds with AUM of more than ₹125 crores as on 31<sup>st</sup> August 2016)

## Growth Fund (ULIF 004 04/02/04 TGL 110)

Fund Details		Fund Performance				Asset Allocation
<b>Investment Objective</b>	: The primary investment objective of the fund is to maximize the returns with medium to high risk.	<b>PERIOD</b>	<b>DATE</b>	<b>NAV</b>	<b>NAV Change</b>	<b>INDEX Change</b>
<b>NAV as on 31 August, 16</b>	: ₹42.1841	Last 3 Months	31-May-16	39.1343	7.79%	5.93%
<b>Benchmark</b>	: S&P BSE Sensex - 65%, CRISIL Composite Bond Index - 35%	Last 6 Months	29-Feb-16	35.0267	20.43%	18.20%
<b>Corpus as on 31 August, 16</b>	: ₹141.43 Crs.	Last 1 Year	31-Aug-15	37.5059	12.47%	9.48%
		Last 2 Years	28-Aug-14	34.8004	10.10%	6.35%
		Last 3 Years	30-Aug-13	25.5873	18.13%	14.03%
		Last 4 Years	31-Aug-12	24.2559	14.84%	11.85%
		Last 5 Years	30-Aug-11	23.3859	12.52%	10.64%
		Since Inception	02-Mar-04	10.0000	12.20%	11.14%

**Note**: The investment income and prices may go down as well as up. "Since Inception" and returns above "1 Year" are calculated as per CAGR.

## Fixed Income Funds

### Whole Life Income Fund (ULIF 012 04/01/07 WLI 110)

Fund Details		Fund Performance				Asset Allocation	
<b>Investment Objective</b>	: The primary investment objective of the Fund is to generate income through investing in a range of debt and money market instruments of various maturities with a view to maximizing the optimal balance between yield, safety and liquidity. The Fund will have no investments in equity or equity linked instruments at any point in time.	<b>PERIOD</b>	<b>DATE</b>	<b>NAV</b>	<b>Crisil Composite Bond Fund Index</b>	<b>NAV Change</b>	<b>INDEX Change</b>
<b>NAV as on 31 August, 16</b>	: ₹21.6686	Last 3 Months	31-May-16	20.5057	2577.29	5.67%	4.52%
<b>Benchmark</b>	: CRISIL Composite Bond Index -100%	Last 6 Months	29-Feb-16	19.7311	2493.93	9.82%	8.01%
<b>Corpus as on 31 August, 16</b>	: ₹253.18 Crs.	Last 1 Year	31-Aug-15	19.2962	2410.46	12.29%	11.75%
		Last 2 Years	28-Aug-14	17.0333	2149.84	12.79%	11.94%
		Last 3 Years	30-Aug-13	15.3761	1923.46	12.11%	11.88%
		Last 4 Years	31-Aug-12	14.5966	1862.92	10.38%	9.66%
		Last 5 Years	30-Aug-11	13.2758	1713.36	10.29%	9.47%
		Since Inception	08-Jan-07	10.0000	1298.79	8.34%	7.85%

**Note**: The investment income and prices may go down as well as up. "Since Inception" and returns above "1 Year" are calculated as per CAGR.

## Guaranteed NAV Funds

The fund would be predominantly invested in equity at inception, wherein the dynamic asset allocation mechanism allocates the portfolio between equity and debt. This dynamic asset allocation is based on the performance of equity markets and movements in interest rates. The equity allocation may be reallocated to debt if the equity markets or interest rates fall, to safeguard the guarantee.

Over time, the asset mix will predominantly shift to debt to protect the guarantee. This dynamic asset allocation process will drive the returns generated by the Apex Return Lock-in Fund. The dynamic asset allocation shifts the allocation of the fund from an equity bias to a debt bias, over time. This would mean that the Guaranteed NAV would not mimic the highest level of the equity market, over the period the guarantee is applicable. Any unexpected and sharp falls in equity market and/or interest rates, during the period the guarantee is applicable, may trigger the allocation to completely move towards debt, to protect the highest NAV achieved prior to the fall. Overall, it is an ideal fund for an investor who wants to take advantage of high returns in a positive market scenario while safe-guarding the investment during any downturn.

### APEX Return Lock-In Fund (ULIF 032 18/02/09 ARL 110)

Fund Details		Fund Performance				Asset Allocation
<b>Investment Objective</b>	: The investment objective for Apex Return Lock-in Fund is to use the participation in an actively managed well diversified equity portfolio of large cap companies to generate capital appreciation and use high credit quality debt instruments to lock-in that capital appreciation. The initial asset allocation in equities is targeted at 80% to 100%.	<b>PERIOD</b>	<b>DATE</b>	<b>NAV</b>	<b>NAV Change</b>	
<b>The highest NAV recorded on reset date</b>	: ₹18.2988	Last 3 Months	31-May-16	17.7672	3.88%	
<b>Corpus as on 31 August, 16</b>	: ₹241.83 Crs.	Last 6 Months	29-Feb-16	16.7402	10.25%	
		Last 1 Year	31-Aug-15	16.9748	8.73%	
		Last 2 Years	28-Aug-14	15.8288	7.98%	
		Last 3 Years	30-Aug-13	12.4520	14.02%	
		Last 4 Years	31-Aug-12	11.7482	11.96%	
		Last 5 Years	30-Aug-11	11.0980	10.71%	
		Since Inception	10-Jun-09	10.0000	8.85%	

**Note**: The investment income and prices may go down as well as up. "Since Inception" and returns above "1 Year" are calculated as per CAGR.

### APEX Return Lock-In Fund II (ULIF 033 03/08/09 AR2 110)

Fund Details		Fund Performance				Asset Allocation
<b>Investment Objective</b>	: The investment objective for Apex Return Lock-in Fund II is to use the participation in an actively managed well diversified equity portfolio of large cap companies to generate capital appreciation and use high credit quality debt instruments to lock-in that capital appreciation. The initial asset allocation in equities is targeted at 80% to 100%.	<b>PERIOD</b>	<b>DATE</b>	<b>NAV</b>	<b>NAV Change</b>	
<b>The highest NAV recorded on reset date</b>	: ₹17.2759	Last 3 Months	31-May-16	16.7477	4.05%	
<b>Corpus as on 31 August, 16</b>	: ₹172.68 Crs.	Last 6 Months	29-Feb-16	15.7135	10.90%	
		Last 1 Year	31-Aug-15	15.9924	8.96%	
		Last 2 Years	28-Aug-14	14.9470	7.97%	
		Last 3 Years	30-Aug-13	11.6782	14.27%	
		Last 4 Years	31-Aug-12	10.9687	12.27%	
		Last 5 Years	30-Aug-11	10.3966	10.88%	
		Since Inception	10-Nov-09	10.0000	8.50%	

**Note**: The investment income and prices may go down as well as up. "Since Inception" and returns above "1 Year" are calculated as per CAGR.

# Quick Glance - Funds Performance

(Funds with AUM of more than ₹125 crores as on 31<sup>st</sup> August 2016)

## Equity Outlook

The month of August 2016 saw the benchmark index S&P BSE Sensex gain 1.4% while Nifty 50 gained 1.7%. The Mid-cap index, Nifty Free Float Mid-cap 100 surged 4% during the same period.

The FIIs were net buyers with inflows of around USD 1.5 bn in the month of August 2016 and the DIIs were net sellers to the tune of USD 0.7 bn with insurance companies' net sellers to the tune of around USD 0.9 bn even as domestic mutual funds were net buyers to the tune of USD 0.2 bn. FII ownership in companies comprising BSE500 was at a record high of 21.2% as on 30<sup>th</sup> June 2016.

The month of August saw continued gains from the Indian equity markets on the back of the passage of the GST Amendment Bill, reasonably dovish guidance on interest rates in the US from the Fed minutes as well as sector specific reform initiatives from the government.

The earnings for the first quarter FY 2017 has positively surprised thus far although the top-line growth has remained muted. The earnings for the fiscal FY 2017 would benefit from a weak base as well as robust domestic consumption on the back of the 7<sup>th</sup> Pay Commission payouts as well as a satisfactory monsoon.

Sixteen states ratified the Constitution Amendment Bill, paving the way to notify the formation of the GST Council, post Presidential assent. The GST Council will finalize details such as rates, categories and rules. Each state will pass the State GST (SGST) bill and the Parliament will pass the Central GST (CGST) and Integrated Goods and Services Tax (IGST) bills. Going forward, Corporate India would shape their business model, especially pertaining to logistics management, around the GST framework, once operational.

In a welcome move to support the construction sector, the Cabinet Committee on Economic Affairs (CCEA) addressed ways to improve the project execution by infusing liquidity for construction companies, improving their balance sheet and thereby mitigating the overall stressed asset situation for banks. The CCEA stated that in case of claims by contractors where the arbitration award is in favor of the contractor but has been subsequently challenged, 75% of the award amount may be released to the contractor against margin-free bank guarantee. This move will benefit the construction sector as this sector has seen an overhang of debt led by pending claims.

RBI has issued guidelines on sale of stressed assets by banks aimed at increasing the number of participants in the stressed asset market, facilitating faster resolution of stressed assets by enhancing price discovery and thereby enabling timely resolution of viable stressed assets. Banks will be allowed to offer stressed assets to other entities such as banks and NBFCs who have requisite capital and expertise in resolving stressed assets.

The economic activity in India has been on an uptick as indicated by the robust August manufacturing and services PMI. Moreover, consumption and industry indicators such as personal credit growth, two wheeler & passenger vehicle sales, tractor volumes and air passenger growth are some of the other pockets of increasing economic activity. Besides, low interest rates and sustained easing liquidity environment should provide a significant boost to aggregate demand benefiting a host of sectors even as monetary policy remains accommodative.

Given the improving macro-economic backdrop, we believe that the equity market offers a reasonable entry point for a long-term investor with a 3-5 year view.

## Debt Outlook

Debt market in the month of August 2016 saw the benchmark 10 year Government security (G-sec) close the month at 7.11%, easing by 5 bps over the month even as the 30 year G-sec eased by 13 bps during the same period. On the corporate bond side, the 10 year AAA corporate bond closed the month at around 7.66%, easing by 16 bps over the month. The new 10 year G-sec was announced during last week of the month. The first cut off came in at 6.97%.

In the month of August, the Foreign Portfolio Investors (FPIs) were sellers of Indian debt to the extent of USD 0.44 bn.

The appointment of Dr.Urijit Patel as the RBI Governor was well received by the fixed income market as it ensured a smooth transition with emphasis on continuity in the monetary policy stance of the RBI. Dr Patel, as the chairman of the expert committee on monetary policy, had advocated some key initiatives which have since been institutionalised in the monetary policy formulation such as the current 4% (+/- 2%) inflation targeting framework, adoption of CPI inflation as the predominant inflation metric instead of WPI inflation as well as the proposal to set up the monetary policy committee (MPC) for taking policy decisions.



# Quick Glance - Funds Performance

(Funds with AUM of more than ₹125 crores as on 31<sup>st</sup> August 2016)

The minutes of the Technical Advisory Committee on Monetary Policy of the RBI prior to third Bi-monthly monetary policy review in August 2016 reveal that the members were concerned on the tepid global economic environment. On the domestic front, they opined that overall private investment demand continued to be muted even as public investment accounted only for a small share of total gross fixed capital formation in the economy. On the positive side, they noted that stabilizing commodity prices together with a good monsoon and the 7<sup>th</sup> Central Pay Commission (CPC) awards could provide a boost to aggregate demand. On the inflation front, members opined that CPI inflation, while being sticky, saw increased upside risks specifically from rising consumption demand and cost-push shocks in the form of a steady rise in crude prices.

For the third bi-monthly monetary policy review, four of the five members recommended status quo as they were of the view that there was no space for accommodation unless there is substantially lower inflation relative to the target of 5% for March 2017 on a durable basis. They were concerned on the recent uptick in CPI and CPI-food inflation and the possibility of elevated food inflation having second round effects on headline inflation. They opined that although industrial growth remain weak, the improvement in liquidity conditions should help banks pass through past policy rate cuts. One member recommended a reduction in the policy repo rate by 50 bps based on the assessment that there was a high probability of inflation softening to 4-5% by the year end.

In a determined effort to increase the liquidity and depth of the corporate bond market and lower the dependence on the banking system, the RBI unveiled a series of measures such as allowing acceptance of corporate bonds under LAF repo, allowing banks to raise AT1 and Tier 2 bonds through INR denominated long term bonds in overseas markets (Masala bonds) as well as allowing banks to raise long term bonds for financing infrastructure and affordable housing through the overseas markets. Moreover, FPIs have been allowed to trade directly in the corporate bond market pending required changes to the regulations while brokers authorized as market makers would be allowed to participate in the corporate bond repo market. Large exposure framework now require banks to make higher provisions and higher risk weights on 50% of their incremental lending to large borrowers. On the other hand, smaller borrowers would be capable of issuing bonds as the banks will be now allowed to offer partial credit enhancement of 50% of bond issue size as against 20% earlier.

We continue to remain constructive on the fixed income market and believe that while there seems to be limited room for the RBI to nudge the repo rate lower in the near term, the robust Kharif (summer crop) sowing as well as a shift in sowing pattern towards pulses augurs well for the fall in food inflation trajectory in the medium term, opening up more space for the RBI to nudge the repo rate lower and trigger the next leg of easing in G-sec yields.

Going forward, the RBI's efforts to speed up the monetary transmission in the banking system as well as keeping liquidity at near neutral levels on a sustained basis will be an important factor for bringing down interest rates in the economy.

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