28th July 2017

TRUSTPLUTUS

Presentation to the Investment Advisory Board

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RE-CAP ON HOUSE VIEWS

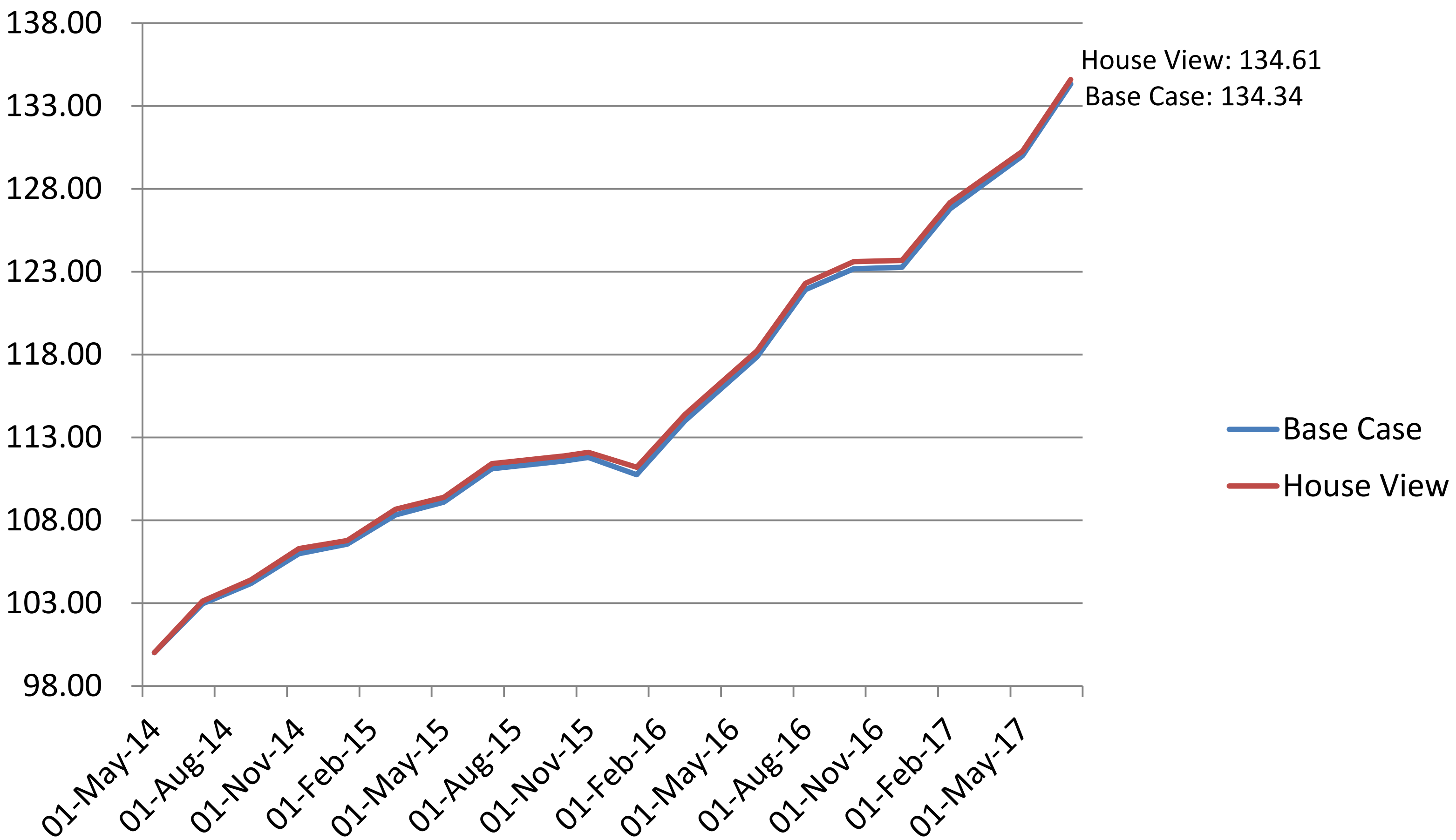
RE-CAP – May, 2017 – Jul, 2017

Asset Class	Sub-Class	Stance for May-Jul	Benchmark	Performance (2nd May to 25th Jul, 2017)
EQUITY	LARGE CAPS	Neutral	S&P CNX NIFTY	6.99%
	MID & SMALL CAPS	UW	S&P CNX 500	5.82%
	INTERNATIONAL	UW	MSCI (World)	3.95%
FIXED INCOME	1 Year CD	OW	1 Year CD	1.75%*
	10 Year G-Sec	Neutral	10 Year Gsec	3.94%*
COMMODITIES	PRECIOUS METALS	Neutral	90%Gold + 10% Silver	(1.07)%
	BASE METALS	Neutral	MCX Metal	2.77%
	ENERGY BASKET	Neutral	MCX Energy	(1.49)%
	AGRI GOODS		MCX Agri	(2.41)%
CURRENCIES	INDIAN RUPEE v USD	UW		(0.34)%

•*Performance period - 2nd May, 2017-25th Jul, 2017 *price + accrued interest*

Source : NSE / MSCI / IDFC / Kitco / MCX / TrustGroup / Bloomberg

RE-CAP – May 2014- Jul 2017: Short Term House Views



•*Performance period -21st May, 2014 to 25th Jul, 2017.*

Source : FE, MCX / TrustGroup / Bloomberg

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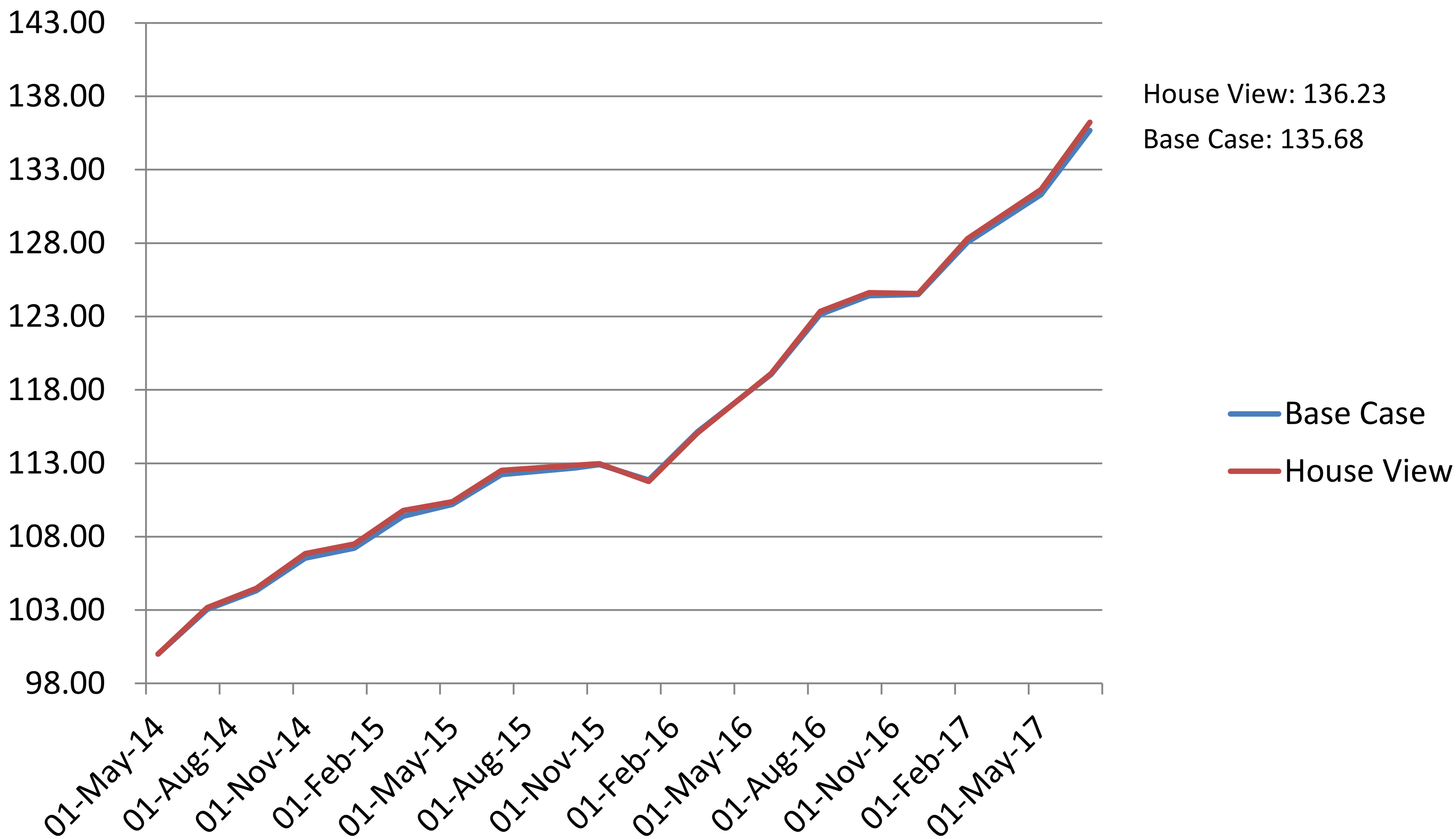
RE-CAP – May 2014- Jul 2017: Long Term House Views



•*Performance period -21st May, 2014 to 25th Jul, 2017.*

Source : FE, MCX / TrustGroup / Bloomberg

SNAPSHOTS OF GLOBAL INDICATORS

SNAPSHOT

Indicators		U S	Europe	China
Activity	PMI GDP	↑	↑	↔
Consumer	Retail Sales Cons. Confidence	↔	↑	↔
Business	IP PMI	↑	↑	↑
External	Trade Data	↔	↔	↑
Labor Market	Employment Data	↑	↑	↔
Inflation	CPI/ WPI	↔	↓	↔
Monetary	M1, M3 Bank Lending	↔	↔	↑
Financial	Equity Mkts Debt Mkts	↑	↔	↔
FCI		↑	↑	↔

SNAPSHOTS OF INDIAN INDICATORS

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SNAPSHOT

	India	Equity	Debt	Currency	Comments
Activity	↔	↔	↔	↔	Q4 FY18 GDP growth was at 6.1% and GDP growth for FY17 was 7.1%. Manufacturing PMI was down to 50.9 in June from 51.6 in May. Composite PMI at 52.7.
Consumer	↑	↑	↓	↑	PV sales down in June by 11%. PV sales for April to June is up by 7.5%. Passenger traffic, Petrol Sales and Real Rural wages showing uptick in may / june.
Business	↓	↓	↑	↓	India's industrial production rose 1.8% in May 2017. Core Industries Index up by 3.6% YoY in May 2017.
External	↔	↔	↔	↔	Trade deficit at $ 13.08 billion in June of 2017 from a $ 8.1 billion gap a year earlier. FII had inflow of $ 4.5 B in June. Cumulative FDI in Apr-May at $10.02 bln ($8.12 bln last year.)
Labor Market	↔	↔	↔	↔	India's Unemployment rate is 3.8%. In July 17. As per BSE index. Hiring activity sees 4% yoy degrowth in May: Naukri Job Speak.

SNAPSHOT

	India	Equity	Debt	Currency	Comments
Inflation	↑	↓	↑	↑	CPI softened to low of 1.54% in June compare to 2.18%. WPI rose to 0.9% in June 2.17% in may. Core Inflation at 4%
Monetary	↓	↓	↑	↓	M3 growth was at 7.1% YoY in July. Deposit growth at 10.7% in July 2017 and Credit Growth at 6% in July 2017.
Fiscal	↑	↑	↑	↑	India's fiscal deficit in May reached 68.3 percentage of the government's target for the financial year 2017-18. For FY 18 targeted fiscal deficit is 3.2%.
Financial	↔	↔	↔	↔	Equity Mkts: P/B 3.5 and P/E 24.2; Nifty FY 2018 P/E : 19.1 (Bloomberg). Yields : Short end: Soften; Long end: Soften
FCI	↑	↑	↑	↑	Conducive Financial Condition

SUMMARY OF TRUST GROUP RESEARCH REPORTS

Summary of Trust Group Research Reports

Report Name	Date	Inference
India Financial Conditions Watch	**23-June-2017**	▪Our Trust India Financial Conditions index has remained consistently positive since the May 2014 BJP win in the general election due to expectations of a more business friendly government. ▪The FCIINR briefly declined and hit the Zero level in Feb-2016 as all three index components declined due to increased volatility in the global markets as risk assets sold off. This was consistent with our report at the time where we had predicted greater global volatility. Some of these global concerns have abated while others remain. ▪Domestically, since May 2016 the FCIINR has improved significantly as the RBI's started providing sufficient liquidity to the market through its liquidity operations lifting all financial markets. This trend accelerated after the UP assembly election where the markets expectation of the government's ability to carry out reforms grew. Expectations of good monsoon and moderating inflation also contributed to the bond market rally. ▪Currently the FCIINR is at historical highs. Going forward, we expect the FCIINR to remain positive given the benign inflation environment, and relatively strong macro fundamentals. However, both domestic and global concerns still remain. Globally geopolitical risks remain high and domestically bank NPAs continue to pose significant challenges for the Indian economy. The FCIINR will be impacted by such events but we expect it to remain positive in calendar year 2017.

Summary of Trust Group Research Reports

Report Name	Date	Inference
RBI April Post Policy Preview	**08-June-2017**	▪As expected by us and the market the RBI kept the policy repo rate unchanged at 6.25% in its June policy meeting. The RBI reduced the SLR from 20.5 per cent of NDTL to 20.0 per cent of NDTL .Unlike past decisions since its inception the decision by the six member MPC was not unanimous but was adopted by the majority of members. ▪After the observing the deceleration in the inflation trajectory over the last several months the RBI has finally shifted its inflation forecast down to levels which would suggest that there is room for the monetary policy to shift back to accommodative. ▪ As we have noted in our Inflation Watch, inflation has fallen to record lows since the change in monetary policy stance and we expect this trend to continue and inflation to remain below the RBI's target in the medium term. Additionally the outlook for inflation continues to improve as the IMD has recently upgraded its forecast of the monsoon to 98% of normal from its April forecast of 96%. Furthermore given the announced structure of the GST the impact on inflation is expected to be minimal as also stated by the RBI. Finally the recent strength of the Rupee will continue to keep imported inflation in check. ▪Therefore going forward we believe the growth inflation mix has created sufficient room for downward policy action later this year. Given the importance of liquidity management the RBI has elaborated on its liquidity management strategy going forward in its last few policy statements. The RBI has stated that it expects the expansion in currency in circulation will progressively drain away some of the surpluses associated with demonetization, while remaining effects will be managed with variable reverse repo auctions with a preference for longer term tenors. ▪The RBI also announced several other developmental and regulatory measures consistent with its five-pillar organizing framework. This approach emphasizes the strengthening of the monetary policy framework; fortifying the banking structure; broadening and deepening financial markets; expanding access to finance; and dealing with stress in corporate and financial assets and putting them back to work. Some these measures included reducing the SLR, reducing risk weights for housing loans and revising the framework for the issuance of Rupee denominated overseas bonds.

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Summary of Trust Group Research Reports

Report Name	Date	Inference
Inflation Watch March 2017	**13-July-2017**	▪June headline CPI inflation rose a record low of 1.54% compared to a year earlier. The core inflation excluding food and fuel fell to around 4.0% from 4.2% the prior month. The June CPI inflation was lower than the median estimate of 1.7 % in the Reuters survey. ▪Since the RBI's change in monetary policy stance from accommodative to neutral in its February policy, we have consistently argued that the RBI's was being overcautious and inflation was likely to undershoot the RBI forecast. ▪ The RBI's change in stance was partly predicated on the view that food inflation was headed higher. However the June data clearly indicates the RBI's fears on food inflation were overblown as it does not show acceleration as feared by RBI but rather a decline in food inflation. The June data actually shows that food and beverages inflation has moved to negative territory brought by deflation in pulses and vegetables. Furthermore the data shows that the seasonal uptick in food inflation that typically occurs during the pre-monsoon months has been muted so far. ▪We expect this trend of muted inflation to continue and inflation to remain below the RBI's target in the medium term. The lower inflation certainly creates room for the RBI to lower policy rates if they choose to do so. ▪First, given the announced structure of the GST the impact on inflation is expected to be minimal as also stated by the RBI. The RBI was previously worried that GST would be inflationary in the initial stages. Second, the outlook for food inflation continues to improve as the IMD has forecasted a normal monsoon. Third, the recent strength of the Rupee will continue to keep imported inflation in check. ▪Taking all of these factors into account, the RBI now projects inflation to average 2-3.5 per cent in the first half of the year and 3-4.5 per cent in the second half of FY17-18 which is significantly lower than its previous forecast. ▪ Despite the current benign inflation trend ,certain upside risks to inflation should be monitored closely. A major risk that imparts upside pressure to inflation is the implementation of the HRA increase. The higher HRA would have a direct and immediate impact on headline CPI through an increase in housing inflation. Assuming a rate of increase in the HRA as proposed by the 7th CPC is implemented from early 2017-18 onwards and the State Governments implement a similar order of increase with a lag of one quarter, the RBI expects that CPI inflation could be 100-150 bps higher than the baseline for 2017-18. The RBI expects the HRA impact on inflation to persist for 6-8 quarters, with the peak effect occurring around 3-4 quarters from implementation. Furthermore the recent farm loan waivers by state governments also pose an upside risk to food inflation. ▪Furthermore, factors that kept WPI elevated are imparting input price pressures for firms. Pricing power is also expected to improve, as reflected by manufacturing firms surveyed in the RBI's latest industrial outlook Staff costs in the manufacturing sector are also expected to increase in Q1:2017-18. The combination of these factors can keep core inflation at elevated levels.

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Summary of Trust Group Research Reports

Report Name	Date	Inference
IIP Watch February 2017	**13-July-2017**	▪IIP rose by 1.7% on a y-o-y basis in May compared to a growth of 2.8% recorded in April. The growth in the IIP for May was lower than expected. The median estimate of the Reuters survey was for a growth of 1.9%. ▪The base year for the IIP index has been revised from 2005-05 to 2011-12 to reflect structural changes in the economy ▪The revised series shows consistently higher IIP growth as compared to the old series. For example on annual basis the IIP growth under the new series was 3.8% from FY13 and FY17compared with an average of 1.4% under the old series. The growth rate under the new series has been higher in each year compared with the old series. ▪The May data seems to suggest that the IIP has been impacted by uncertainty surrounding the introduction of GST. As firms adjust to the new operating environment we expect the impact of this uncertainty to fade. ▪Going forward, conditions for growth are improving. Falling cost pressures, and recent measures relating to project approvals, land acquisition, mining, and infrastructure will be supportive of growth in industrial output. We also believe that conditions for growth have improved further as the government's ability to undertake reforms has improved with the recent showing in state assembly elections. Finally a normal monsoon will also be supportive of rural demand. Under such conditions we expect continued gradual improvement in the IIP over the coming months.

Summary of Trust Group Research Reports

Report Name	Date	Inference
Bank Credit Watch March 2017	**03-May-2017**	▪Non-food bank credit increased by 9% y-o-y in March 2017 as compared with 9.1% during March 2016. Non-food credit growth has remained muted reflecting the challenging environment that banks are facing. ▪Fortunately, while nominal credit growth has remained subdued, there is adequate credit availability to most sectors once the numbers are adjusted for inflation and increased borrowing from the bond market, and other non-bank funding sources. Furthermore, banks have written-off/sold loans to asset reconstruction companies (ARCs), which effectively compressed their loan books and in addition a large share of the UDAY bond issuances during the financial year represent conversion/swapping of bank credit into special securities. ▪As economic growth picks up as it is expected to, higher credit growth will be required to sustain that growth. However as we have consistently argued sustained pick up in credit growth will require a meaningful reduction in NPAs. NPA problems will not be easily solvable as banks continue to struggle with diminished profitability while at the same time the implementation of Basel III norms raise the need for additional capital. Under such conditions we continue to believe that the current levels of capital infusions by the government are highly inadequate to support the level of credit growth that will be required for a recovering economy. News coming out of the RBI indicates that the RBI is currently evaluating options including setting up a bank to tackle the NPA problem.

Summary of Trust Group Research Reports

Report Name	Date	Inference
External Watch June 2017	**24-July-2017**	• India's trade deficit narrowed in May on the back of lower imports hand continued strong export growth performance . Overall India's external position has improved significantly over the last two years which has reduced its vulnerability to external shocks. Reflecting this improvement the current account deficit for Q4FY17 came in at 0.6% of GDP and for FY17 as a whole at 0.7% of GDP, a significant improvement over the last several years. • India has benefited from a number of developments which has put it in a better position to deal with the current rise in global risk aversion and other geopolitical developments. India has steadily built its foreign exchange reserves to comfortable levels while at the same time reducing the share of short term debt as a share of total external debt. However we still believe the level of foreign exchange hedging by Indian companies needs improvement to limit forex risks. • This improvement has now been supplemented with sustained improvement in export growth. India has shown nine consecutive months of positive export growth after a prolonged period of declines. • Although the trade deficit is higher than its recent lows we believe external risks remain balanced and we expect the CAD to continue to remain manageable. The Rupee has appreciated to four year highs post the recent state assembly elections. While the RBI may not desire such a rapid appreciation its ability to intervene aggressively is limited as it is wary of increasing domestic liquidity through its intervention given that the banking system is already awash with surplus liquidity. The RBI is currently attempting to tackle the liquidity surplus problem which should give it more flexibility in managing Rupee volatility in the medium term. Meanwhile the stable currency continues to attract FII inflows into Indian debt as it presents an attractive carry opportunity.

HOUSE VIEWS FOR JULY 2017

Near Term Views: EQUITIES

STANCE : Maintain Neutral for Large Cap
Maintain Underweight for Mid & Small Cap

Why

Positive : Economic activity looking better on the back of better consumption data, monsoon and real rural wages trending up.

Continued domestic flow in Indian equities.

Benign financial condition index.

Concerns : Higher expectation of earnings growth to justify current valuation

What Can Change our View

Positive

Earnings and growth revival in domestic economy.

Negative

US CBOE VIX is at 9.5 and VIX in nifty at 11.2 suggesting lot of complacency in equities

International Equities : STANCE : Maintain UW - US / Neutral Europe

Near Term Views: Fixed Income

STANCE (Short Term) : Maintain Overweight
STANCE (Long Term) : Maintain Neutral

Why

Positive :

Benign inflation, favorable currency and monetary condition.

Good monsoon having positive impact on food inflation.

Concerns : Inflation might pick up in coming months.

Neutral view of RBI

Fiscal Impact of farm loan waiver

What Can Change our View

Positive

Continued goldilocks scenario of lower oil price, stable currency and lower inflation .

Negative

Global rate cycle, bottoming and impact of higher global yield on Indian rate scenario.

Near Term Views: Indian Rupee

STANCE (Short Term) : Change to Neutral

Why

Continued Weakness in US $ Index

Robust flow in FPI and FDI

What Can Change our View

Positive

Better economic growth backed by GST and sovereign upgrade

Negative

Deteriorating trade deficit especially higher imports growth.

Near Term Views: COMMODITIES

Precious Metals

- **Maintain Neutral**
- Protection over tail risk in global economy
- Inventory situation is neutral but any rise in yield will weight on gold

Energy

- **Maintain Neutral**
- Seasonal demand trend supportive
- High US Inventory is a concern area
- OPEC and Russia's agreement to extend supply cut will remain supportive

Base Metals

- **Maintain Neutral**
- Resilient China keeps demand supportive.
- Inventory situation not supportive

House View for July 2017

		SHORT TERM*	MEDIUM TERM	LONG TERM
EQUITIES				
	LARGE CAPS	Neutral	Neutral	OW
	MID & SMALL CAPS	UW	Neutral	OW
	INTERNATIONAL	UW*	Neutral	Neutral
FIXED INCOME				
	SHORT DURATION	OW	OW	OW
	LONG DURATION	Neutral	Neutral	OW
CASH		Tactical	Tactical	Contingencies
COMMODITIES				
	PRECIOUS METALS	Neutral	Neutral	Neutral
	BASE METALS	Neutral	Neutral	Neutral
	ENERGY BASKET	Neutral	Neutral	UW
CURRENCY (INR v USD)		Neutral	Neutral	Neutral
REAL ESTATE				
	RESIDENTIAL	UW	Neutral	Neutral
	COMMERCIAL	OW	OW	OW**
PRIVATE EQUITY		Neutral	Neutral	Neutral

Short Term :upto 3 months / Medium Term : 3 – 6 months / Long Term : above 6 months

**Change to Neutral for Europe*

*** Commercial Real Estate – Value in Certain Pockets / Lease rental deals*

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