



Pelican Wealth

Newsletter from Pelican Wealth Managers Pvt. Ltd.

June - 2007 S.N. 009

For Private Circulation Only

insight

INSURANCE

ELSS vs. Single Premium ULIP
Snapshot of Jeevan Amrit
(LIC's new product)

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KNOWLEDGE CORNER

Churning



Pelican Wealth is a quarterly newsletter from our end for the purpose of giving you a comprehensive outlook on the investment world apart from our views. This newsletter being quarterly will reach you second week of July, October, January, April as the case may be. This newsletter covers news from general industry to mutual fund industries in specific along with crossword, quiz to test your knowledge levels.

ECONOMY & THE MARKETS

The markets is shy of the all time high, i.e 14,700 points(Sensex), the Sensex seems to be listless at this level waiting for the directions from the first quarter results that are expected from 10th July onwards. Given that the India's growth story is intact and the advance tax collections have been impressive to say the least we are pretty gung-ho on the domestic consumption based growth. Onset of good monsoon had positive effect on the agrarian sector. The domestic inflation rate is a more benign 4.00%, a significant drop over the past few months and therefore there is no significant reason for upward rise in domestic interest rates as well.

The only dark cloud on the horizon is

the global indicators lead by the US dollar vis a vis the rupee, with its continued weakening, exports and mid and small tiered IT companies could feel the pressure on their bottomlines. We are in the near term cautiously optimistic and in the long term HUGELY Bullish returns from the equity investments.

The last quarter saw significant collections from the Mega IPOs like DLF and ICICI Bank, which raised massive funds from the market apart from mutual fund industry through NFOs which has ensured adequate liquidity in Indian market. On the Debt side Fixed Maturity Plans (FMPs) continues to be huge hit. FMPs of duration of 3 months and 6 months have been lapped up by the corporate and longer tenured ones like the 12 & 18 months FMPs have been a hit with the High Networth Individuals (HNIs).

Recent announcements at making PAN mandatory for all investments in Mutual funds irrespective of the size (earlier it was restricted to investments above Rs 50,000/-), has created a huge confusion and would disrupt the rhythm of record collections that the mutual funds have been getting. While the logic of ensuring Know Your Client (KYC) as well as to prevent illegal money into the Indian Mutual Fund space is laudable, the manner of executing the same is clumsy.

ELSS Vs Single Premium ULIPs

Single Premium Unit Linked Insurance Plans (SP ULIPs) have been the preferred flavor for lot of people who invests through insurance. Their main advantage is the tax break under Sec 80C of Income Tax Act 1961.

Equity Linked Saving Schemes (ELSS) is a diversified equity mutual fund schemes which also gives tax breaks and allows lump sum investment. So which one is better???

THE SIMILARITIES

- SP ULIPS and ELSS, one has to invest once and it is locked in for three years
- In ELSS investment will be in equity. In SP ULIPs there is choice of investing in equity and debt instruments.

THE DIFFERENCE

The biggest difference is that SP ULIPs gives a life cover while ELSS does not. The 'mortality cost' of insuring the life is deducted from the value of the fund every month. When the policy holder dies the higher sum assured for fund value is paid to the beneficiary.

COSTS INVOLVED

ELSS – the amount invested is subject to only two charges Entry load (normally 2.25% of the amount invested) and the recurring

charges which also termed as Expense ratio.

SP ULIP – following are the charges incurred in SP ULIP

- Premium Allocation Charges
- Fund Management Cost - similar to Expense Ratio
- Mortality cost-difference between sum assured and the value of the fund.
- Surrender charges in the fourth and fifth year
- Policy Administration Charges.

RETURNS

Since both SP ULIPs and ELSS have a three year lock in, three year returns must be given importance. However, SP ULIPs have been operating only since two year, therefore one year return of each product is considered. Average One Year Returns of ELSS schemes are 18% whereas SP ULIPs are 15%.

WHICH IS BETTER???

Given the cost structure and returns rates, the ELSS emerges as better option if investment is considered for purely tax saving. Cost in MF industry are standardized but not in insurance. The price of SP ULIP works out higher than ELSS. However SP ULIP may make sense in the long term for larger amount. But purely to save tax limiting the investment size to Rs 1 lakh ELSS will be the best way to opt for.

JEEVAN AMRIT

About the policy : The plan has been designed for all those who would like to have a shorter period for payment of premium but at the same time would prefer longer period of insurance at a low cost

Min Sum assured- **Rs 1, 00,000**

Max Sum assured- **No Limit**

Tenure- 10-30 years

FEATURES

- Premium payable decreases after the first year of the policy.
- Premium payment is limited to term of 3,4 or 5 yrs
- The policy is available for individuals between 12 to 60 years.
- On maturity benefit the policy holder would be paid the total premium amount along with bonus and final additional bonus.
- In case of the death of the policy holder an amount equal to sum assured along with bonus and additional bonus will be payable in lump sum immediately

Pelican's View – The unique feature of the plan is that bonuses are payable on the total premium paid rather than the sum assured thereby making it more attractive for higher premium payers moreover the bonus which will be declared annually at the end of each Financial Year at a rate proportionate to the total amount of premium paid on the date of valuations. The plan is especially suitable for NRIs, young software professional.

EQUITY MARKET

- The first quarter of the year FY 07-08 witnessed predominately a bull rally.
- The Sensex gained around 17% (absolute) touching all time high of 14600+ pts for the quarter ending June 2007
- The month of April was a reviving month when Sensex started to regain from 12400 pts.
- Firm global market and RBI's decision to keep key rates unchanged also helped the market to sustain its positive trend.
- The northward journey continued in the month of May when the Sensex touch 14000+ pts.
- As far as Sectoral indices are concerned all the sectors ended at positive.
- Lower inflation number, considerable FII and MFs, inflow, bullish industrial output kept the market strong till end of June 2007.

Flows: Net Investments (Equity)

Date	FII (in Rs Cr)	MF (in Rs Cr)	Total
30/04/2007	5431	1031	6462
31/05/2007	4574	1783	6357
28/06/2007	2544	549	3093
Total	12549	3363	15912

Source: moneycontrol.com

Market Snapshot

Index	2/4/2007	30/6/2007	% change
BSE Sensex	12455.37	14650.51	17.62
FTSE	6315.5	6607.9	4.63
NASDAQ	2422.26	2603.23	7.47
NIKKEI	17028.41	18138.36	6.52
STRAIT TIMES	3246.31	3548.2	9.30

Source: icra

Sector Snapshot

Index	2/4/07	30/6/07	% change
BSE AUTO	4569.91	4739.57	3.71
BSE FMCG	1691.1	1829.33	8.17
BSE IT	4672.56	4870.73	4.24
BSE MID CAP	5209.29	6527.03	25.3
BSE-Bankex	6152.59	8009.94	30.19

Source: icra

OUTLOOK

- The Equity Market are expected to remain strong in the coming quarter.
- Factors like good corporate results, onset of monsoon will keep the sentiment going.
- However there are concerns like hike in interest rate and increasing IPO/capital raising pipelines
- Despite above concerns the long term story remains strong and valuation have become attractive.
- Investors need to allocated resources to equity fund through SIP route to ride through the market volatility.

DEBT MARKET

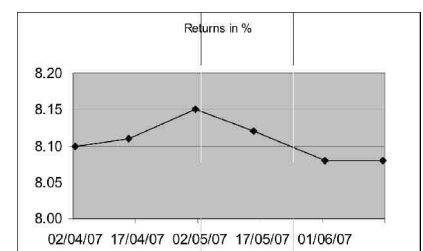
- The FY07-08 began on negative note as the market reacted adversely to the unexpected Repo and CRR rate hikes by RBI
- Amongst other factor; inflation remained above 6% during the month of April.
- The debt markets enjoyed the comfortable liquidity during the month of May largely due to inflows on account of coupon payments and maturities.
- Over all sentiment was positive in June on account of comfortable liquidity positions.

- The month also witnessed 13 month low inflation of 4.03%.
- The 10 Yr Gsec was range bound between 8.10% - 8.08% started the quarter around.
- The Crude Oil prices hovered at the range of 60-62\$ per barrel for the first quarter of FY 2007-08.

OUTLOOK

- The biggest challenge for the Government is to maintain the inflation rate which inturn effect on the gilt prices.
- The outlook looks cautious as market will take cues from the upcoming credit policy and auction.
- Given the recent increase in the yields, accrual income component of returns will go up and investors should consider debt products like Fixed Maturity Plan (FMP), short term debt funds in their portfolio to yield better returns.

10 year G Sec movement for the quarter ending June 2007



ONLY WOMEN !!!!

Standard Chartered Bank at Jodhpur Park branch in Kolkata became the bank's first all-women branch. The bank is planning to focus on its women customers by organizing workshop on investments and financial planning!!!

ICICI Pru Power Fund

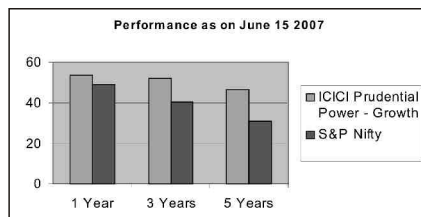
General Information:

ICICI Pru Power is an open-ended growth fund dedicated to stocks from "core sector to feeder industries". The fund mainly focuses on large and midcap portfolio with a focus on select sectors. Earlier a close-ended fund, ICICI Power was made open-ended in September 2001. Since some original investors appear to have redeemed their holding during the transition the fund started out with large cash position gradually investing its portfolio in equities.

Fund Facts

Asset Management Company	ICICI Prudential
Fund Manager	Anil Sarin
Min Investment	5000 Rs
Entry Load	2.25%
Exit Load	NIL
Launch Date	Aug 27 1994
Benchmark	S&P Nifty
AUM (as on 31st May 07) (in crs)	Rs1558.2427

Performance of ICICI Pru Power with respect to benchmark S&P Nifty



PEER PERFORMANCE

ICICI Pru Power has a consistent performance and superior returns. It has been giving long-term track record of performance. (see below table for the performance)

PORTFOLIO ANALYSIS

ICICI Pru Power is diversified equity fund which has exposure to various industries.

Top 10 Holdings as on May 31, 2007	
Company	%
Reliance Industries Ltd	7
Bharati Tele - Ventures	6.68
Cash	4.72
Punjab National Bank	4.52
ICICI BANK LTD.	4.37
Zee Telefilms Ltd	4.23
Steel Authority of India Ltd	4.1
ICICI BANK LTD.	3.95
Infosys Technologies Ltd	3.83
Tata Consultancy Services Ltd.	3.51

Top 10 Industry Allocation as on May 31, 2007	
Banks	16.95
Diversified	12.22
Computers - Software & Education	10.55
Entertainment	8.33
Steel	6.94
Pharmaceuticals	6.71
Telecom	6.68
Miscellaneous	5.43
Engineering & Industrial Machinery	4.38
Electronics	4.32

Conclusion: ICICI Pru Power has very consistent track record since inception. ICICI Prudential Power seeks to present an optimum blend of large and mid cap stocks. The fund is very good bet for investor who has high risk appetite as the fund is positioned in the High Risk High Return quadrant. This fund has promising outlook.

CROSSWORD

1	2	3	5		
4					
		6			
7					
		8			

ACROSS

- 1. Antonym of Top (6)
- 4. Stock market pessimist (4)
- 6. Leading Index for Indian Co on NSE (5)
- 7. Mutual Fund traded and listed in stock exchange
- 8. Glassy ceramice glaze (6)

DOWN

- 1. Stock market _____ (6)
- 2. Telecom Regulator Authority of india (4)
- 3. Sum equal to 10lakh rupee (7)
- 5. A card used for buying goods and services(5)

See Pg 7 for Answers

Performance as on June 15, 2007									
Scheme Name	NAV (15-Jun-07)	COMPOUND ANNUALIZED							
		1 Year	Rank	3 Year	Rank	5 Year	Rank	Since Inception	Rank
Birla SunLife Equity Fund - Growth	198.94	69.889	1	56.794	1	48.5956	2	40.4398	1
Franklin India Bluechip - Growth	135.4166	48.0286	5	43.0503	7	43.2563	6	31.3616	3
HDFC Top 200 - Growth	116.776	49.782	4	48.7192	4	47.3074	3	27.9063	5
ICICI Prudential Power - Growth	86.98	53.5664	3	51.9752	3	46.279	4	18.5491	7
Reliance Vision - Growth	196.44	58.7137	2	53.0813	2	50.1061	1	29.0022	4
Sundaram BNP Paribas Growth Fund-Growth	68.8693	41.7781	7	43.2471	6	40.2234	7	24.725	6
Tata Pure Equity Fund - Growth	65.3069	47.8947	6	47.4806	5	44.7311	5	33.9271	2

Source: ICRA S/W

PMS as a investment Vehicle

The investors with a surplus funds of (more than 20 lacs) doesn't know were to park their money and tired of investing in shares, mutual funds then the ideal option is Portfolio Management Service (PMS) which will take care of all the worries of investing. PMS is the service offered by various banks, AMCs and brokerage houses for professionally managing the portfolios of investment on behalf of individuals, firms, companies, trust or societies for an agreed fee.

PMS is an investment vehicle which is

- Sophisticated – High end product
- Personalized – Customization as required
- Exclusive – A premium status attached to it and
- Provides high levels of customer service and interaction

Fee Structure

The Fees depends on the each Mutual Fund and brokerage house which is in turn linked with the performance of the portfolio over a specified period. The basic fee (in other words management fee) is payable to the fund house irrespective of the profit or loss made on the portfolio of investments which is usually around 2%-3% on the total portfolio value. Apart from the basic fees many PMS schemes charges performance based management fees which is around 10%-30% of

the profits realized above a specified limit in a year. The performance based fee is an incentive to the fund manager as well as the fund house to the fund house to strive to get maximum returns on the portfolio because the more the profit generated, the more their reward.

Difference between PMS v/s MF Schemes

PMS
Portfolio Manager gives individual attention and has personal touch with investor.
Investor gets to know number of times his portfolio is churned along with how it is churned.
High entry barrier as minimum ticket size is 5Lacs which can extend to 1 cr.
High risk and volatile

Mutual Fund Schemes
Large Fund size restricts Fund Manager to do so.
Such Information not available in Mutual fund.
No such barrier as one can start SIP as low as Rs 100.
Risk is diversified which in turn reduces the volatility.

Conclusion:

PMS is an ideal investment vehicle for High Networth individuals (HNI) or Very High Networth Individuals (VHNI). The customization of the portfolio in keeping with the individual investor's risk profile and expectation of returns and the personalized feedbacks and service provided by the fund manager himself makes it most suitable for individuals who have lots of cash to spar but little or no time to do the investing themselves. One main drawback is that is definitely not suitable for retail clients who has surplus of 5 to 10 Lacs. These client need to look for diversifying their portfolios in other asset classes like real estate, commodities, mutual funds apart from equities. However even the HNIs and VHNI should consider only substantial surplus to invest in PMS depending on the investment horizon and risk appetite. The financial planner or advisor helps such type of investor to construct a proper asset allocations.

PERFORMANCE OF FEW PMS SCHEMES AS ON 31ST MAY 2007

Scheme Name	3 month	6 months	1 year	Min Inv. Amt (in Rs)
ICICI Pru Deep Value	15.90%	13.50%	54.90%	30 Lacs
ICICI Pru Infrastructure	17.30%	6.50%	43.10%	30 Lacs
FT select	18.30%	17.42%	51.04%	50 Lacs
FT Opportunities	17.49%	18.34%	52.65%	50 Lacs
HSBC Signature Portfolio	12.77%	13.86%	43.64%	50 Lacs
Reliance Absolute Freedom	14.84%	6.68%	50.03%	1Cr. (for NRI 2Cr)

Exchange Traded Fund (ETF)

As the name implies ETF are the mutual funds that are listed and traded on the stock exchanges there by offering investors a convenient mode to buy and sell mutual funds units.

Background:

ETFs first made their presence in the country in 1994 with the launch of Morgan Stanley Growth Fund, a close-ended, actively managed, diversified equity fund. However, the dismal track record of the fund's performance combined with a price history that was trading perpetually at discount to the NAV (net asset value), gave investors the wrong signal as far as ETFs were concerned. Investors began perceiving ETFs as poorly managed and felt short-changed when they sold their units at a steep discount to the NAV.

Classification:

ETFs can be broadly classified as below:

1. Open ended or close ended i.e open ended ETF can issue fresh units on a continuous basis whereas in close ended it cannot be done.
2. Actively managed or passively managed in terms of fund management style i.e actively managed funds aims to outperform the benchmark index while passively managed ETFs are aligned to that of benchmark index in exactly the same proportion / weightage.

Advantages:

- ETFs can be bought and sold throughout the trading day allowing for intraday trading.
- Traders have the ability to short or buy ETFs on margin
- Low annual expenses
- Transparency
- Bear Market Friendly- During downturn of the market ETFs become the instrument of choice as it is not expected to be as volatile and yet may be traded
- Diversification

Disadvantages:

- ETFs can be traded at discount i.e. ETF could potentially trade above or below the value of underlying portfolios
- Commissions- Like stocks trading ETFs also costs a lot
- Absence of prior active market: In India ETFs are being new instruments; there is no existing market that one could know into immediately after buying the product.

ETFs Vs Index:

Index	Exchange Traded Funds
Charges like entry/exit load from investor for making or redeeming their investments	No such charges are incurred
Needn't maintain any separate account	Need to have Demat account
High expense ratio	Low expense ratio

Can redeem or invest only at the end of day NAV	Traded over stock exchange so can be bought or sold like stocks or real time basis.
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Portfolio Strategy

Exchange traded index funds invest in the same stocks that comprise their underlying indices and in the same proportion as well. Akin to conventional index funds, the intention is to mirror the performance of the index as closely as possible. Any change in the constituents of the benchmark index is reflected in the portfolio of the index fund as well.

Conclusion

ETFs are flexible and low cost, and their underlying portfolios are protected from the impact of investor trading, making them more tax-efficient than most mutual funds. However one must look before they leap as ETF's cost advantage isn't always as large as it might seem and trading cost and quickly adds up. ETFs have established a track record in developed markets like US but they are still finding their feet in India. Investors must first get over the mental block associated with ETFs and look at them with a fresh perspective.

ART AS INVESTMENT

Art is a "traditional" investment alternative. Buying art as investment is a relatively new phenomenon in the Indian Market although it enjoyed the prominent position in the investor's portfolio in the West. It's only fairly recently the people have woken up to the fact that paintings not just about being pretty and beautiful, they are also about indecent sum of money. One big factor that has pushed up the prices is the NRI boom. Internationally, London, New York, Germany, Singapore and Hong Kong are big markets for Indian art, and this is mainly because these places have a large number of Indians. Leading artists like MF Husain, Tyeb Mehta, SH Raza and Francis Newton Souza have become hot property even on western auction sites like Christie's and Sotheby's.

Another exciting aspect is that the art buyer is no longer necessarily a rich old businessman, it varies from young bank executive, or an airhostess, or just anybody because some art galleries, like Delhi's Gallery Espace, are willing to let the payment made in installments which has ultimately created a demand.

FEATURES

- Is extremely vulnerable to fluctuations in public tastes. The popularity and history of the artist can have huge impact on the work of art. Therefore they are considered high risk, speculative investments
- Is a illiquid investment as it generally cant be sold quickly for profit
- Cannot form a core portfolio as there is no track record
- To earn decent returns one has to invest for a long term.
- Art funds are not governed by any law or regulations therefore the investors have to do their homework and should consider investing.

Tips to buy art

- Find a dealer of repute - who knows the quality and had been in business for long
- Obtain a written appraisal or certificate attesting the quality and authenticity of the item
- Risk is reduced by information - read everything you can about your specific area of interest.
- Insure and maintain the artwork adequately and properly.
- Avoid putting more than a small percentage say 5% to 10% of your total investment portfolio.

- Purchase top quality items - though expensive they tend to appreciate even during difficult markets. Second and third rung works of art may cost less initially, but may prove to be very costly in the longer run.

When to Sell?

The investors must not be in hurry to encash the art investment. The longer the painting adorns the wall the greater is the chance of growing value. While there is no general rule that applies, on an average most experts suggest holding periods of between 3 to 10 years, depending on how fast the work appreciates. However if one decides to sell the treasure the best way is to go through a reputed art gallery. It's a good idea to go to the gallery where painting has been bought as there might be reduced commission say as little as 10%. Visiting the gallery gives a good idea to evaluate the work properly and to seek good advice. Lastly one should invest in art to add a dash of color to the portfolio, that too with money that is not much needed.

ANSWERS FOR CROSS WORD	
Across	Down
1. bottom	1. Bubble
4. bear	2. Telecom Regulator Authority of India
6. Nifty	3. Million
7. ETF	5. Debit
8. Enamel	

CHURNING

Many times for various reasons the investor are tempted to shift investments from one fund to another. In the process of shifting of investments there involves a cost of exit and entry loads. This is known as 'churning'.

They year 2005 witnessed launch of approx seventy-five New Fund Offers (NFOs). Most of the NFOs had little to offer from an investor perspective, but a lot to offer to the distributor (commissions paid out on some funds were as high as 6.00%). The net result was that distributors pushed the schemes to their clients, successfully who inturn got the commission.

Another main reason for churning is the distributor gets good upfront commission for every NFO transaction apart from other benefits like gifts, holidays. Etc. However in April 2006, the mutual fund industry to some extent insulated from the NFO malaise. NFOs were still popping up; but a lot less.

The following are the three 'wrong' reasons which normally prompt

investors to churn their portfolios

- They are asked to do so by their distributor / advisor. Distributors in order to earn more commission normally make unsuspecting investors churn their portfolio for their own benefit.
- Some investors tend to churn their portfolios simply because they wish to own funds with lower NAV
- Some investors churn their portfolios because every time they do so, their agent passes back to them portion of the commission he/she earns.

Measures taken by Securities and Exchange Board of India. (SEBI)

When the mutual fund industry was been insulted with NFO malaise SEBI finally stepped in and put a rules stating that all the open-ended NFOs will have to necessarily charge the entire initial issue expenses (around 6%)through entry load. By this way the distributor commission will be reduced and lot of 'wasteful expenditure' will become still.

What should the investor do?

When the distributor or the wealth advisor asks to redeem the

investment, the first question to be asked is why? Was it not a good scheme?. If the reason is convincing by showing a supportive document or logical then one can redeem their investment. More attention needs to be given when they come up with any NFOs. The investor should read enough information about the NFO and check whether it will fit into his asset allocation which would have been discussed by the advisor earlier. For e.g If diversified equity NFO comes up , the investor need to check whether his portfolio has substainal allocation to the same, if he is not able to figure out, he needs to ask the advisor such questions which convinces him to invest in that particular NFO. To sum up investors must know that frequent **Churning leads to losses** and also the fact that somebody is gaining advantage on their hard earned money.

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