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Met Invest

Gratuity Fund Performance Monthly Fund Update, March '11

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



ECONOMY

| Indicators | Feb 2011 | Mar 2011 | M-o-M Variation |
|--------------------------------------|----------|----------|-----------------|
| 10-year G-sec India (%) | 8.01 | 7.99 | -0.02 |
| 10 year AAA Corporate Bond | 9.16 | 9.15 | -0.01 |
| 5 year G-sec India (%) | 8.00 | 7.90 | -0.10 |
| 5 year AAA Corporate Bond | 9.27 | 9.22 | -0.05 |
| 1 year T-Bill | 7.60 | 7.55 | -0.05 |
| 1 yr CD | 10.10 | 9.80 | -0.30 |
| Exchange Rate USD/INR | 45.27 | 44.58 | -0.69 |
| Forex Reserves USD Bn | 300 | 303 | 3.00 |
| WPI Inflation (%) | 8.23 | 8.31 | 0.08 |
| Index of Industrial Production (IIP) | 2.5 | 3.7 | 1.20 |
| US 10- YEAR TREASURY YIELD (%) | 3.42 | 3.47 | 0.05 |
| SENSEX | 17823 | 19445 | 9.10% |
| NIFTY | 5333 | 5833 | 9.38% |

Source: RBI WSS & Bloomberg

Fixed Income Market

The main highlight for the month was the mid quarter policy review of the Reserve Bank of India. In line with expectations, RBI raised the Repo and Reverse Repo rates by 25 basis points. The Repo rate now stands at 6.75% and Reverse Repo at 5.75%. RBI raised its March 2011 estimate for inflation from 7% to 8%. The reasons mentioned by RBI include high global crude prices, continued stickiness in manufactured non food product inflation and higher food prices due to structural change in dietary preferences.

The IIP (Industrial Production) for the month of January (which was released in March) was lower at 3.7%. The cumulative growth from April to January was at 8.3%. On a sectoral basis, growth was led by mining (up 1.6%), manufacturing (up 3.3%) and electricity (up 10.5%). On use based classification, Capital Goods continued to underperform (at -18.6%), Consumer Goods were up (at 11.3%) and Consumer Durables remained strong (at 23.3%).

WPI for the month of February rose to 8.31% (previous month was 8.23%). This was higher than the market expectation of around 8.2%. Although Fuel and Primary articles were in line with weekly readings, the rise in manufactured products was the key reason for higher inflation in February.

As per RBI data, credit growth is at 23.2% (y-o-y 2011) and deposit growth at 16.6% (y-o-y 2011). The foreign exchange reserves are at \$303 billion. Tight liquidity conditions continue to exert pressure at the shorter end of yield curve. The three month to one year CD's were trading between 9.50% to 10.25% during the month. Most banks were offering fixed deposits at rates which were above 10% for various tenors.

The government borrowing calendar for the first half (Apr to Sep) was released in the month of March. The Government of India is scheduled to borrow 60% of gross borrowing requirement in first half which was less than market expectation of 65%. The government will borrow Rs.2500 billion on gross basis and Rs.1900 billion on net basis. This is slightly positive for the debt market as the G-Sec issuances may not be as high as anticipated earlier.

Unrest continued in Libya, which pushed up oil prices by another 6% in March and touched \$117 during the month. This is a 30-month high in Brent crude on concerns that the conflict in Libya, Africa's third-largest exporter, will prolong production cuts and spread to West Asian producers. Higher oil prices will lead to higher fuel inflation.

Equity Market

After having fallen 13% in the first two months of calendar year 2011, the month of March provided a big relief to the market with key Indices Nifty and Sensex surging by 9.4% and 9.1% respectively. India was one of the best-performing markets in the world.

The March rally was led by FII inflows which turned positive with USD 1.6 bn of net buying. This was supported by DIIs with net buying of USD 0.4bn.

From the domestic market standpoint, data points remained mixed bag as IIP for January beat expectations with 3.7% Y-o-Y growth. However, inflation for February came in at 8.3% slightly above market expectations. In the mid-quarter policy, RBI increased key rates, Repo and Reverse Repo, by 25 basis points each. INR appreciated by 3.5% during the month on the back of FII inflows and strong exports growth.

ECONOMY

Economic environment on the international front continued to remain uncertain as an unfortunate event of earthquake in Japan sent ripples across the world markets. The high price of crude oil is still a major worry. However, positive data points have started emanating from the US. With better jobs data, US unemployment rate (8.8%) fell to a two year low.

The sectors which performed well in the month of March were Banking, Cement and Real Estate. Sectors such as Fast Moving Consumer Goods, Pharmaceuticals and Oil and Gas were underperformers.

The Banking sector outperformed the market primarily due to lower than expected net government borrowing in FY12 (as announced in the Union Budget), likely peaking out of interest rates, acceleration in deposit mobilization coupled with strong credit growth and reasonable valuations.

The Cement sector outperformed this month, helped by rising prices, as producers continued to cut volumes and artificially boost prices. This volume cut has helped producers raise prices by 6-23% in the last two months, especially in the Northern region.

The Infrastructure sector stocks witnessed some value buying due to attractive valuations. However, we believe this rise is not supported by fundamental improvements. The sector continues to be impacted by delays both in terms of new order inflows as well as execution. This has been further aggravated by increased competition. In this challenging environment, we continue to adopt a cautious approach and prefer companies with strong balance sheet and demonstrated execution skill.

We have been cautious on the Utilities sector given the risk associated with coal (fuel) availability and merchant tariff. The recent international thermal coal contract at 130\$/t is negative for companies exposed to international coal market (last month domestic coal prices were increased by 15%). We believe that companies which have control over coal (fuel) are the best bet in this sector.

Information Technology, which has been one of the best performing sectors on a year-to-date basis, witnessed a mild underperformance on account of appreciating INR and rich valuations.

Investors remained on the sideline ahead of quarterly results starting mid-April. The future performance of this sector will hinge on management commentaries about growth outlook and guidance for FY12

The Pharmaceutical sector too had an unimpressive month owing to delays in drug approvals and company specific issues. Rising rupee is also a concern. However, from a medium to long term perspective, we are positive on the sector given the strong growth in domestic market and increasing penetration of generic drugs in the US. We continue to like companies that have strong domestic franchise and sizeable presence in the US market.





Outlook on Fixed Income Markets

Going ahead, the uptrend in non-food manufactured inflation, structural change in food consumption and higher oil prices poses an upside risk to inflation. We expect robust economic growth to continue. RBI is expected to continue the calibrated process of rate hikes to tame inflation. Liquidity is expected to improve slightly in early April on the back of increased government spending.

Bond yields are expected to be range bound with an upward bias. Currently the 10 year G-Sec is trading around 8%. We expect market to be range bound with an upward bias in interest rates, due to regular central government borrowing.

The Corporate bonds have witnessed widening of spreads in the 3-5 year maturity. The spreads in these maturities are hovering around 140-170 basis points. The spreads of 10 year corporate bonds are above their historical average.

Outlook on Equity Market

Some of the earlier concerns such as slowing FII inflows, worsening current account deficit and runaway inflation are now abating. FII inflows have turned positive. Current Account deficit is narrowing with surge in exports growth.

However, post the 10% rise in March, equity markets are likely to take a breather ahead of FY11 results starting from mid- April. The April – June quarter will be an eventful one for the

market. The Indian Metrological Department (IMD) will officially release its monsoon forecast during April or May. The results of five state elections, slated to be held during the next two months, would also be declared during this period.

We are positive on sectors that are a direct play on domestic economy such as Banking, Automobile, Consumer Goods and Pharmaceuticals. We also like sectors such as Information Technology and Metals that would benefit from global recovery.

At current valuations, markets seem to be reasonably valued and look attractive from a medium to long term perspective.

UNIT-LINKED Fund

Gratuity Balanced

As on 31st March 2011

Investment Objective: To generate capital appreciation and current income, through a judicious mix of investments in equities and fixed income securities

Asset Classes

Government & other debt securities
Equities
Cash & Money Market

Investment Philosophy

The fund will target 30% investments in Equities and 70% investments in Government & other debt securities to meet the stated objectives.

Portfolio Return

| Returns | NAV | Benchmark |
|----------------------|------|-----------|
| Last 6 months Return | 0.8% | 0.7% |
| Last 1 year Return | 6.9% | 6.9% |
| CAGR since inception | 9.2% | 10.3% |

Past performance is not indicative of future performance

Note: Benchmark has been calculated as per the target holding of the fund i.e. 30% Equity and 70% Debt Securities

Security type

Equity
Debt

Benchmark Index

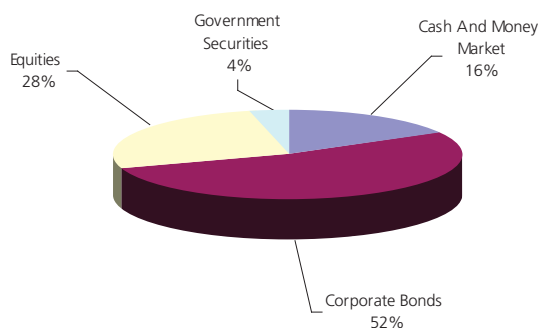
S&P CNX Nifty
CRISIL Composite Bond Fund Index

Gratuity Balanced Portfolio as on 31 Mar 2011

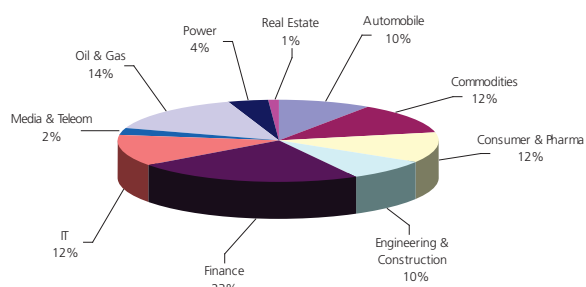
| Security Name | Wt | Rating |
|---------------------------------------|----------------|-----------|
| Government Securities | 3.81% | |
| GOI 2022 | 2.72% | Sovereign |
| GOI 2027 | 1.08% | Sovereign |
| Others | 0.00% | |
| Corporate Bonds | 51.61% | |
| HDFC | 8.06% | AAA |
| Reliance Gas Transport Infrastructure | 6.77% | AAA |
| Tech Mahindra | 6.01% | AAA |
| Reliance Capital Ltd | 4.78% | AAA |
| Power Grid Corporation Ltd | 4.56% | AAA |
| LIC Housing Finance Company Ltd | 4.45% | AAA |
| ICICI Bank Ltd | 4.38% | AAA |
| Power Finance Corporation Ltd | 3.70% | AAA |
| Larsen & Toubro Ltd | 3.64% | AAA |
| TATA Sons Ltd | 3.35% | AAA |
| L&T Finance Ltd | 1.06% | AA+ |
| Others | 0.86% | |
| Equities | 28.50% | |
| Reliance Industries Ltd | 2.24% | |
| ITC Ltd | 1.90% | |
| Infosys Technologies | 1.83% | |
| ICICI Bank Ltd | 1.65% | |
| Larsen & Toubro Ltd | 1.49% | |
| HDFC | 1.26% | |
| HDFC Bank Ltd | 1.13% | |
| Mahindra & Mahindra Ltd | 1.05% | |
| State Bank Of India | 1.05% | |
| Others | 14.89% | |
| Cash And Money Market | 16.09% | |
| Total | 100.00% | |

Note: "Others" comprises of combined exposure to securities with less than or equal to 1% weightage in Portfolio

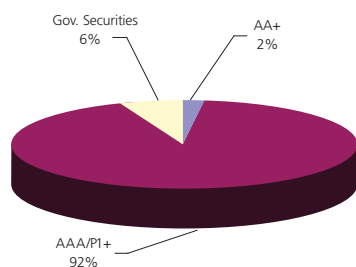
ASSET ALLOCATION



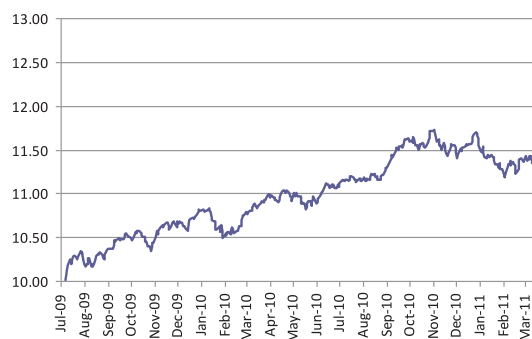
EQUITY SECTORAL BREAK-UP



CREDIT RATING OF DEBT PORTFOLIO



NAV MOVEMENT SINCE INCEPTION



(Date of inception: 06-December-2007)

UNIT-LINKED Fund

Gratuity Debt

As on 31st March 2011

Investment Objective: To earn regular income by investing in high quality fixed income securities

Asset Classes

Government & other debt securities
Cash & Money Market

Investment Philosophy

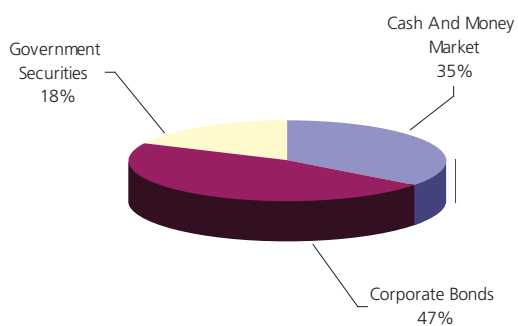
The fund would target 100% investments in Government & other debt securities to meet the stated objectives.

Gratuity Debt Portfolio as on 31 Mar 2011

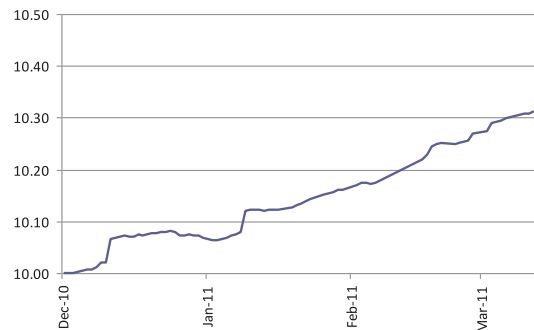
| Security Name | Wt | Rating |
|---------------------------------------|----------------|-----------|
| Government Securities | 18.44% | |
| GOI 2015 | 12.20% | Sovereign |
| GOI 2011 | 5.81% | Sovereign |
| Others | 0.43% | |
| Corporate Bonds | 46.46% | |
| HDFC | 7.70% | AAA |
| Rural Electrification Corporation Ltd | 7.54% | AAA |
| Power Finance Corporation Ltd | 5.89% | AAA |
| Reliance Industries Ltd | 3.97% | AAA |
| Tech Mahindra | 3.96% | AAA |
| SAIL | 3.96% | AAA |
| IL&FS | 3.79% | AAA |
| Power Grid Corporation Ltd | 3.22% | AAA |
| Reliance Gas Transport Infrastructure | 2.78% | AAA |
| Reliance Capital Ltd | 2.77% | AAA |
| Others | 0.88% | |
| Cash And Money Market | 35.10% | |
| Total | 100.00% | |

Note: "Others" comprises of combined exposure to securities with less than or equal to 1% weightage in Portfolio

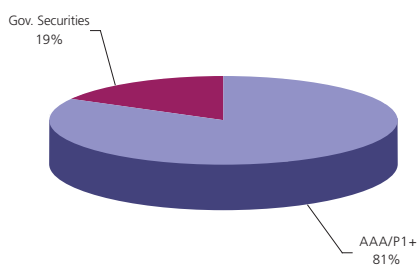
ASSET ALLOCATION



NAV MOVEMENT SINCE INCEPTION



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