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# Met Invest

## Gratuity Fund Performance Monthly Fund Update, Jun'11

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



## ECONOMY

Indicators	May 2011	Jun 2011	M-o-M Variation
10-year G-Sec India (%)	8.41	8.33	-0.08
10 year AAA Corporate Bond(%)	9.74	9.62	-0.12
5 year G-Sec India (%)	8.49	8.36	-0.13
5 year AAA Corporate Bond(%)	9.72	9.57	-0.15
1 year T-Bill(%)	8.29	8.30	0.01
1 yr CD(%)	10.00	9.73	-0.27
Exchange Rate (USD/INR)	45.06	44.70	-0.36
Forex Reserves (USD Bn)	309	309	0.00
WPI Inflation (%)	8.66	9.06	0.40
Index of Industrial Production (IIP)(%)	8.8	6.3	-2.50
US 10- YEAR TREASURY YIELD (%)	3.06	3.16	0.10
Brent Crude Oil (USD/barrel)	117	112	-4.3%
Sensex	18503	18846	1.9%
Nifty	5560	5647	1.6%

Source: RBI WSS & Bloomberg

### Fixed Income Market

The key highlight for the month was Annual Monetary Policy Review of Reserve Bank of India. RBI, in an expected move, hiked the Repo and Reverse Repo rates by 25 basis points. The Repo rate now stands at 7.50% and Reverse repo at 6.50%.

RBI's dominant concern continued to be reining in inflation, even at the cost of short term deceleration in growth. RBI mentioned that the ongoing risks to global growth were arising from impact of higher crude oil and commodity prices, Japan earthquake, monetary tightening in emerging economies and sovereign debt problem in Euro region.

The government finally raised prices of diesel, LPG & kerosene in June. Despite the adjustment, prices are still below international prices, resulting in oil companies continuing to face under-recoveries. A fiscal deficit higher than the budgeted target of 4.6% is quite likely. Bond markets expect a higher borrowing in the second half of financial year, which might exert upward pressure on the yields.

The Wholesale Price Inflation (WPI) for the month of May rose above 9% (previous month's figure was 8.66%), due to increase in manufactured non-food products inflation. This was higher than market expectation. The fuel

price hike implemented in the month of June will put incremental upward pressure on WPI numbers, going forward.

Global commodities and crude oil prices cooled off due to concerns on demand from developed economies, mainly US and Euro region. The outlook on growth remains subdued in China, India and other emerging economies due to tightening in policy rates, resulting in lower commodities prices due to anticipation of lower demand.

The yield at the shorter end softened due to demand from mutual funds. Three month to one year CD's were trading between 8.40% to 9.80% range during the month. The 10 year GSec yields rallied due to value buying. The Corporate / PSU 10 year bond yields tracked the GSec movement and eased to 9.62%.

### Equity Market

The month of June was highly volatile for Equity markets. There were negative earnings surprises along with macro concerns of rising interest rates. This led to a correction of 5.5% during the month. However, Nifty gained 7.5% towards end of the month on the back of fuel price hikes by the Government and positive global cues. It closed 1.6% up over May at 5647. The upmove in Equity markets was accompanied by strong volumes, mainly on account of \$1.3 billion of net purchases by FIIs in June.

Elevated inflation remained a key concern for the Central Bank which raised key policy rates by another 25 basis points. Inflation for May at 9.06% was higher than expected. However, there was a decline in food inflation. Monsoons have progressed normally, so far, which augurs well for food price inflation. The drop in Index of Industrial Production Data (IIP) for April 2011 disappointed Equity markets and highlighted the weakening demand scenario.

The news flow from global markets was positive as Greek parliament passed the austerity vote, calming global markets. Crude oil prices softened further in June by 3.4%. There was a significant correction in the prices of many commodities globally.

# ECONOMY

## Sector Performance

The sectors which performed well in the month of June were Fast Moving Consumer Goods (FMCGs), Telecom and Power Utilities. Sectors like Oil and Gas, Metals, Realty and Cement underperformed.

Consumer stocks were in flavour, benefiting partly from slide in crude oil prices and expectations of a 'normal monsoon'. Going forward, the decline in commodity prices coupled with an increase in product prices by companies could lead to an expansion in operating margins.

Telecom stocks rallied on the basis of expectations of increase in tariffs and declining competitive intensity from new incumbents. The initial response to 3G roll-out has been encouraging leading to increased data revenues for telecom companies. It appears that price competition has peaked out. Pricing stability coupled with high data revenue augurs well for telecom companies and may lead to earnings upgrades, post June quarter results.

Cement stocks continued to fall in June. The lackluster growth outlook coupled with huge oversupply poses fundamental worries for the sector. The current demand for cement is lower than the installed capacity. In addition to this, the cost structure of cement companies has escalated over last two quarters, primarily on account of increase in fuel prices.





## Outlook on Fixed Income Market

Going ahead, the uptrend in non-food manufactured inflation and fuel price hike done in June poses an upside risk to inflation. RBI is expected to continue the calibrated process of rate hikes to tame inflation. In our opinion, RBI could be approaching the end of tightening cycle.

The Corporate bonds have rallied tracking the rally in GSecs, but are still attractive as spreads are in the range of 120-170 bps. The spread of 10 year corporate bonds are still above their historical average and make it an attractive investment in the medium term.

Bond yields are expected to be range bound with an upward bias due to regular Central Government borrowing. Currently, the 10 year GSec bond is trading around 8.33%. Market is looking for further cues from inflation data and the mid-quarter Monetary Policy.

## Outlook on Equity Markets

There was a significant turnaround in investor interest, as evident by positive FII flows during the month. The decline in commodities prices, especially crude oil augurs well for India.

Though there are macro-economic challenges in the form of elevated inflation and high interest rates, there have been some measures in the policy front over last few days. With hike in fuel prices, Government has softened the impact of huge under-recoveries.

With ten rounds of rate hikes totaling 2.75% increase in interest rates over the last 15 months, it seems that RBI may be nearing the end of rate tightening. The IIP decline corroborates the fact that manufacturing inflation is quite high.

Though relative economic slowdown is evident, corporate earnings for April-June quarter would be important for the markets. Impact of higher commodity prices and interest rates may throw up negative surprises in some of the sectors. Market valuations continue to look attractive from a medium term perspective.

# UNIT-LINKED Fund

## Gratuity Balanced

As on 30th June 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	0.4%	-0.5%
Last 1 year Return	5.5%	5.1%
CAGR since inception	8.3%	8.2%

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

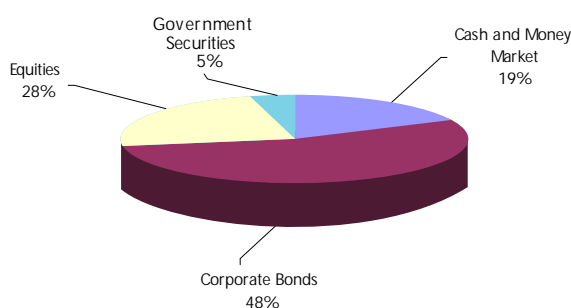
Security type	Benchmark Index
Equity	S&P CNX Nifty
Debt	CRISIL Composite Bond Fund Index

Gratuity Balanced  
Portfolio as on 30 June 2011

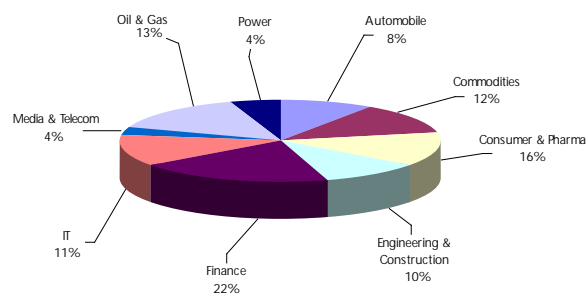
Security Name	Wt	Rating
Government Securities	4.35%	
GOI 2012	4.35%	Sovereign
<b>Corporate Bonds</b>	<b>48.25%</b>	
Reliance Gas Transport Infrastructure	6.74%	AAA
HDFC	6.57%	AAA
Tech Mahindra	5.99%	AAA
Power Grid Corporation Ltd	4.54%	AAA
LIC Housing Finance Company Ltd	4.42%	AAA
ICICI Bank Ltd	4.38%	AAA
Power Finance Corporation Ltd	3.69%	AAA
Larsen & Toubro Ltd	3.65%	AAA
TATA Sons Ltd	3.31%	AAA
Reliance Capital Ltd	3.05%	AAA
L&T Finance Ltd	1.06%	AA+
Others	0.85%	
<b>Equities</b>	<b>28.18%</b>	
ITC Ltd	1.93%	
Reliance Industries Ltd	1.92%	
ICICI Bank Ltd	1.65%	
Infosys Technologies	1.56%	
Larsen & Toubro Ltd	1.46%	
HDFC Bank Ltd	1.21%	
HDFC	1.10%	
Others	17.34%	
<b>Cash And Money Market</b>	<b>19.22%</b>	
<b>Total</b>	<b>100.00%</b>	

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

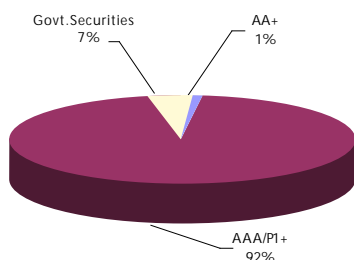
### ASSET ALLOCATION



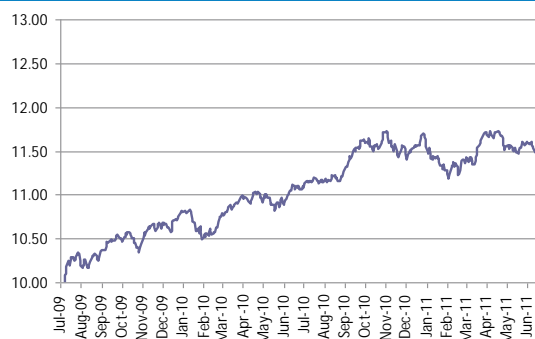
### EQUITY SECTORAL BREAK-UP



### CREDIT RATING OF DEBT PORTFOLIO



### NAV MOVEMENT SINCE INCEPTION



(Date of inception: 07-July-2009)

# UNIT-LINKED Fund

## Gratuity Debt

As on 30th June 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

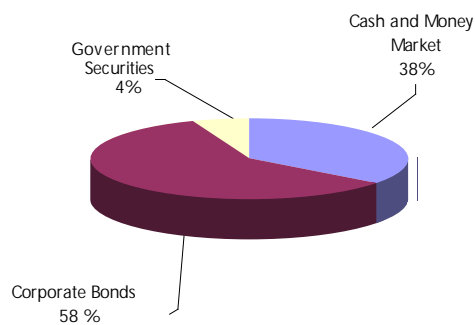
The fund would target 100% investments in Government & other debt securities to meet the stated objectives.

Gratuity Debt  
Portfolio as on 30 June 2011

Security Name	Wt	Rating
<b>Government Securities</b>	<b>4.13%</b>	
GOI 2012	2.34%	Sovereign
Others	1.80%	
<b>Corporate Bonds</b>	<b>58.20%</b>	
Rural Electrification Corporation Ltd	8.19%	AAA
LIC Housing Finance Company Ltd	8.00%	AAA
HDFC	6.77%	AAA
IRFC	5.49%	AAA
Power Finance Corporation Ltd	5.23%	AAA
NABARD	3.63%	AAA
SAIL	3.50%	AAA
Tech Mahindra	3.49%	AAA
Reliance Industries Ltd	3.44%	AAA
IL&FS	3.36%	AAA
Power Grid Corporation Ltd	2.85%	AAA
Reliance Gas Transport Infrastructure	2.45%	AAA
Reliance Capital Ltd	1.81%	AAA
Cash And Money Market	37.66%	
<b>Total</b>	<b>100.00%</b>	

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

### ASSET ALLOCATION

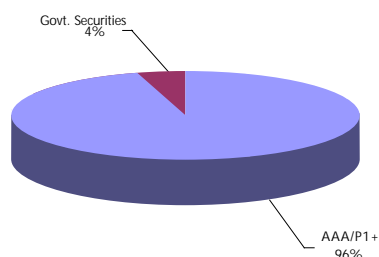


### NAV MOVEMENT SINCE INCEPTION



(Date of inception: 20-December-2010)

### CREDIT RATING OF DEBT PORTFOLIO



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