MetLife

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# Met Invest

## Gratuity Fund Performance

### Monthly Fund Update, July'11

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

## ECONOMY

| Indicators | Jun 2011 | Jul 2011 | M-o-M Variation |
|---|---|---|---|
| 10-year G-Sec India (%) | 8.33 | 8.45 | 0.12 |
| 10 year AAA Corporate Bond (%) | 9.62 | 9.46 | -0.16 |
| 5 year G-Sec India (%) | 8.36 | 8.45 | 0.09 |
| 5 year AAA Corporate Bond (%) | 9.57 | 9.42 | -0.15 |
| 1 year T-Bill (%) | 8.30 | 8.45 | 0.15 |
| 1 yr CD (%) | 9.73 | 9.80 | 0.07 |
| Exchange Rate (USD/INR) | 44.70 | 44.19 | -0.51 |
| Forex Reserves (USD Bn) | 309 | 317 | 8.00 |
| WPI Inflation (%) | 9.06 | 9.44 | 0.38 |
| Index of Industrial Production (IIP) (%) | 5.8 | 5.6 | -0.2 |
| US 10 - year Treasury Yield (%) | 3.16 | 2.80 | -0.36 |
| Brent Crude Oil (USD/barrel) | 112 | 117 | 4.5% |
| Sensex | 18846 | 18197 | -3.4% |
| Nifty | 5647 | 5482 | -2.9% |

*Source: RBI WSS & Bloomberg*

### Fixed Income Market

The key highlight for the month was First Quarterly Review of Monetary Policy by Reserve Bank of India. RBI surprised the market by raising policy rates by 50 basis points vs. expectations of a 25bps hike. The Repo rate now stands at 8.00% and Reverse repo at 7.00%.

The Wholesale Price Inflation (WPI) for the month of June rose to 9.44% (previous month's figure was 9.06%), due to increase in manufactured non-food products inflation. The persistence of inflation at above 9% levels over the past 18 months, coupled with indications of continued pricing power, appears to be key reason for the move. The fuel price hike implemented in the month of June also added around 70bps to the WPI numbers.

RBI has mentioned that minimum support prices (MSPs) for some agricultural commodities, particularly rice and pulses, were increased significantly. This is likely to exert upward pressure on food inflation even if the harvest is good. Non-food manufacturing inflation persists at elevated levels, reflecting underlying demand pressures.

While early corporate results for Q1 of 2011-12 indicate some moderation in margins, suggesting reduced pricing power, the pass-through of higher commodity prices into more generalized inflation remains significant.

May industrial output slowed below expectation to 5.6% vs consensus at 8.5%. A slower-than-expected rise in capital goods production and weak intermediate goods production led to the downside surprise.

The outlook on growth remained subdued in Brazil, Russia, India, China (BRIC nations) and other emerging economies due to tightening in policy rates. The manufacturing Purchase Managers Index (PMI) of all BRIC nations plummeted and read below 50 (a reading below 50 means contraction in the economy). Only India PMI was at around 53 vs. 56 in the last reading.

The yield at shorter end rose sharply reacting to the 50 basis point hike by RBI. The one year Treasury bill yield rose from 8.30% to 8.45%. Three month CD yield rose from 8.30% to 9.15%. The 10 year GSec yields also rose from 8.33% to 8.45% due to value buying.

### Equity Market

The month of July was no different from the previous month and continued to be negative for Equity markets. There were negative earnings surprises in the first quarter results of companies as well as an unexpected hike of 50 basis points of policy rates by RBI. This led to a correction of 2.9% during the month, with Nifty closing at 5482. Despite strong FII inflows of $1.6 billion of net purchases, there was a downturn in Equity markets in July.

Elevated inflation remained a key concern for the Central Bank, which raised year end inflation target to 7%. Inflation for June at 9.44% was higher than expected. The drop in Index of Industrial Production Data (IIP) for May 2011 disappointed equity markets and re-affirmed the weakening demand scenario. The only silver lining, amidst the negatives, came in the form of strong export growth and narrowing of trade deficit.

The news flow from global markets was equally adverse as markets were concerned with the raising of Debt ceiling by US to avoid a credit downgrade by rating agencies. There was a spurt in gold prices as investors sold equities and moved to safer havens.

# ECONOMY

## Sector Performance

The sectors which performed well in the month of July were Telecom and Cement. Sectors like Oil and Gas, Metals, Infrastructure and Banking underperformed.

The Telecom sector was the best performing sector this month. Telecom stocks rallied on the back of increase in tariffs, almost after two years, by leading telecom operators. The recent tariff hikes demonstrate return of pricing power to the sector and declining competitive intensity. This bodes well for the sector and significantly improves sector profitability.

Cement stocks performed well despite the cost pressures, as cement companies reported steady operating margins for the quarter. The demand is expected to improve slightly in second half of FY12. However, the large oversupply worries for this sector still persists.

Metal stocks underperformed the market as margins are expected to be under pressure, due to higher cost of raw materials and softening product prices. The draft mining Bill has proposed raising royalty on minerals and sharing of 26% of pretax profits with local authorities. This would impact the margins of metal companies negatively. During the month, the Supreme Court banned mining activities in Bellary region of Karnataka, following the Lokayukta report on illegal mining in the region.

The Infrastructure and Banking sector stocks underperformed, primarily due to the rate hike by RBI.

# MARKET OUTLOOK


## Outlook on Fixed Income Market

RBI's baseline projection of real GDP growth was retained at 8.0%, as set out in the May policy statement. RBI's baseline projection for WPI inflation for March 2012 has been revised upwards to 7.0% from 6.0% projection in the May policy. Going ahead, the uptrend in non-food manufactured inflation, increased MSPs for agricultural commodities and high crude oil prices poses an upside risk to inflation.

The Corporate bond spreads are in the range of 100-150 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 inflationary expectations and regular Central Government borrowing. Currently, the 10 year GSec is trading at around 8.45%. Market is looking for further cues from inflation data and the first quarter GDP data.

## Outlook on Equity Markets

There continues to be a significant turnaround in investor interest, as evident by positive FII flows during the month. There are macro-economic challenges in the form of elevated inflation and high interest rates. Global recession fears have affected investor sentiment significantly.

The impending economic slowdown is evident and corporate earnings for April-June quarter have largely disappointed. Though market valuations continue to look attractive from a medium term perspective, we would adopt a cautious approach going forward.

# UNIT-LINKED Fund

## Gratuity Balanced

As on 31st July, 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 | 3.6% | 2.3% |
| Last 1 year Return | 5.5% | 4.4% |
| CAGR since inception | 8.1% | 7.6% |

*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*

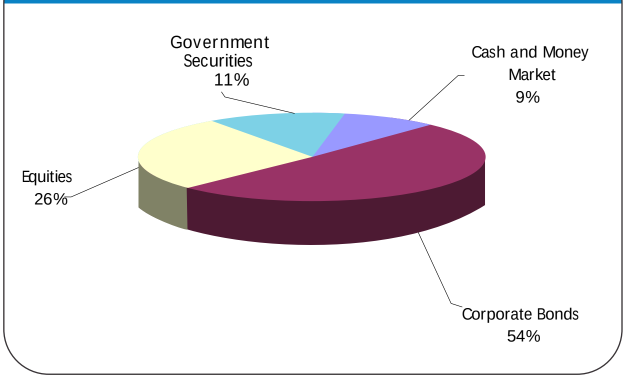
| *Security type* | *Benchmark Index* |
|---|---|
| Equity | S&P CNX Nifty |
| Debt | CRISIL Composite Bond Fund Index |

Gratuity Balanced
Portfolio as on 31st July, 2011

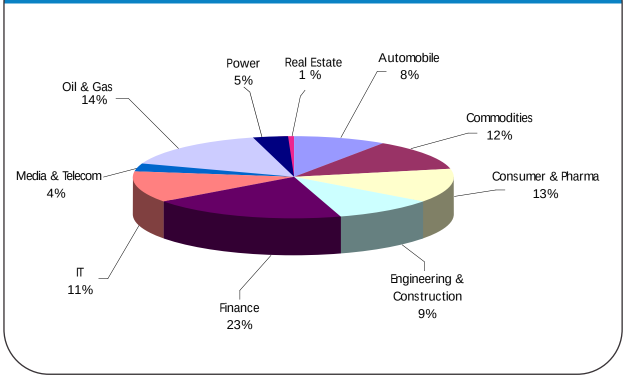
| Security Name | Wt | Rating |
|---|---|---|
| Government Securities | 10.94% | |
| GOI 2012 | 10.94% | Sovereign |
| Corporate Bonds | 53.88% | |
| Power Grid Corporation Ltd | 9.57% | AAA |
| Sundaram Finance Limited | 8.29% | AA+ |
| IL&FS | 8.12% | AAA |
| Power Finance Corporation Ltd | 7.78% | AAA |
| Larsen & Toubro Ltd | 7.67% | AAA |
| LIC Housing Finance Company Ltd | 4.67% | AAA |
| HDFC | 3.66% | AAA |
| TATA Sons Ltd | 2.33% | AAA |
| Reliance Industries Ltd | 1.79% | AAA |
| Equities | 26.23% | |
| Reliance Industries Ltd | 1.79% | |
| ITC Ltd | 1.66% | |
| ICICI Bank Ltd | 1.57% | |
| Infosys Technologies | 1.50% | |
| Larsen & Toubro Ltd | 1.40% | |
| HDFC Bank Ltd | 1.18% | |
| Bharti Airtel Ltd | 1.10% | |
| HDFC | 1.08% | |
| Others | 14.95% | |
| Cash And Money Market | 8.95% | |
| Total | 100.00% | |

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

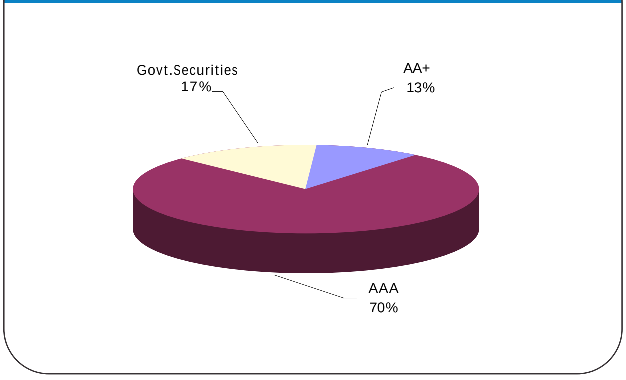
### ASSET ALLOCATION



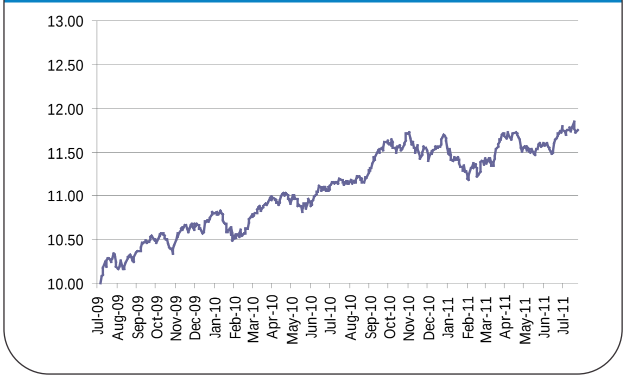

### EQUITY SECTORAL BREAK-UP




### CREDIT RATING OF DEBT PORTFOLIO




### NAV MOVEMENT SINCE INCEPTION




*(Date of inception: 07-July-2009)*

# UNIT-LINKED Fund

## Gratuity Debt

As on 31st July, 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

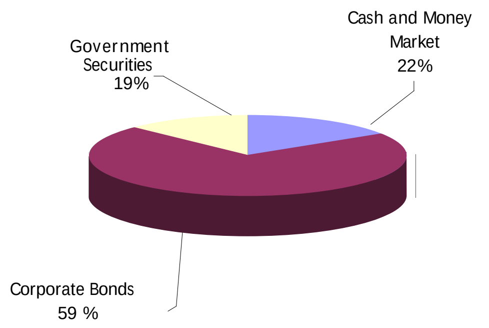
The fund would target 100% investments in Government & other debt securities to meet the stated objectives.

Gratuity Debt
Portfolio as on 31st July, 2011

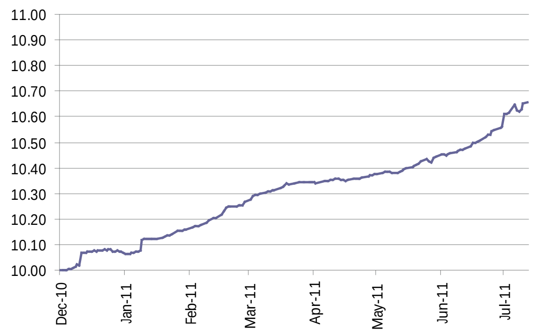
| Security Name | Wt | Rating |
|---|---|---|
| Government Securities | 18.66% | |
| GOI 2012 | 13.70% | Sovereign |
| GOI 2027 | 3.65% | Sovereign |
| Others | 1.31% | |
| Corporate Bonds | 58.73% | |
| IL&FS | 8.60% | AAA |
| Rural Electrification Corporation Ltd | 8.58% | AAA |
| Sundaram Finance Ltd | 8.38% | AA+ |
| LIC Housing Finance Company Ltd | 8.37% | AAA |
| HDFC | 7.11% | AAA |
| Power Finance Corporation Ltd | 5.48% | AAA |
| SAIL | 3.68% | AAA |
| Tech Mahindra | 3.66% | AAA |
| Power Grid Corporation Ltd | 2.99% | AAA |
| Reliance Capital Ltd | 1.89% | AAA |
| Cash And Money Market | 22.61% | |
| Total | 100.00% | |

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

### ASSET ALLOCATION

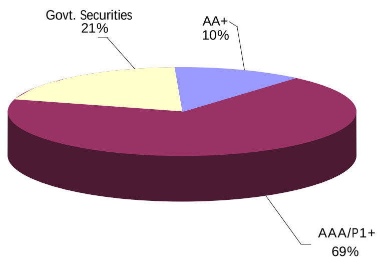



### NAV MOVEMENT SINCE INCEPTION




*(Date of inception: 20-December-2010)*

### CREDIT RATING OF DEBT PORTFOLIO



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