

June 2011

# Indepth

The Investment Newsletter



Our Views

Last year during this time, I was travelling to Johannesburg for the World Cup (Football and not Cricket!) with some of my friends. We were divided into two groups, as there were two flights with a gap of just half an hour, which flew out of Mumbai to Johannesburg. I was booked in the first flight which was introduced just a month back. When I boarded the aircraft, I was pleasantly surprised. It was a spanking new Airbus 330-200 series, a new generation, state of the art technology aircraft and the flight was almost empty with ample of space to travel comfortably. I could have actually joined the middle three seats and slept comfortably like one does in the business class. But little did I know then what nightmarish experience was waiting for me. In the aviation industry they say it is worst to fly when the monsoons have just started to set in. We just did that, that night and flew directly to the middle of the South Westerly bound monsoon, soon after we took off. I have been flying for quite sometime now, but I have never experienced such vicious turbulence that we went through, in the first 45 minutes of the flight. A wide bodied aircraft of this size was going up and down by few hundred feet, in the middle of the Arabian sea! The flash of lightning outside was scary and the row after row of empty seats inside gave a ghostly impression and sent chill down my spine. Initially, it was fear which then turned into pray and finally, a submission to fate. They were the longest 45 minutes of my life .But then all of a sudden, a complete calm set in and it was quite some time before I realized that the calm was for real and more importantly, settled on the wings.

When we cleared our immigration in Johannesburg, we were waiting for our friends, who were arriving by the next flight. Logically, the waiting should not have exceeded more than an hour, but our waiting elongated much more than that and almost to a point, when we started worrying for our friends. The public communication system at Johannesburg Airport was inept and there was no mention of the flight from Mumbai on the display. We called up Mumbai and found that the flight took off as scheduled, which further served to worry us. However, when they finally arrived two hours after the schedule time of arrival, and their smiling faces were truly reassuring. "How was the flight?" was my spontaneous question. "Smooth....very smooth" was the answer. I could not believe what my friend said and thought he was just being derisive. But when I posed the same question to his matter of fact, septuagenarian father, the answer was no different. I was wondering how that could possibly happen, as such turbulent weather cannot subside within half an hour. I could not find a logical answer at that point but remained pondering, all through.

Later, when I returned to Mumbai, I discussed the issue

with a friend of mine, who flies for one of the two airlines and sometimes in the same sector. As he knew both the Captains who flew us that night well, he managed to speak to both of them. What he said was a huge learning for me. Thanks to the new technology, both the Captains were aware of the turbulent weather, ahead that night. The Commander of the second flight decided upon a diversion. He chose a smoother flight path, at the cost of lengthened flying time, as the flight was almost full and he had three wheelchair bound passengers onboard. He decided that his passengers deserved a smooth flight after a heavy dinner and it was his responsibility to ensure that they reached their destination comfortably. However, the first Commander who flew the aircraft, yours truly was boarded upon thought otherwise. He decided to fly through the downpour, as he believed that he had the best, most advanced machine possibly produced by man, under his command and his load factor that night was less than 40%. He asserted that if he had taken the circuitous route of diversion in favor of a smoother flight, then the commercial viability of his flight would have gone for a toss. Besides, he reached before the scheduled arrival time and the turbulence, though scary for a Lily-livered passenger like yours truly, to the commander, it was just 'moderate to severe turbulence' as per his pre-flight Shear Factor calculation. However, under no circumstances both the men compromised on the safety rules.

Who was right? While my heart votes for the second Commander, my head says you cannot completely rule out the point made by the first Commander. After all, commercial aviation is not a charity. The incident as described in detail is metaphoric to our fund management industry today. The monsoon season is just round the corner and Yes, we are going through a turbulent time in the market and all the macroeconomic risks of high inflation, rate uncertainty and narrowing output gap with no visible sign of investment cycle turning around, are largely in public domain. The market is discounting another 50 to 75 bps rate hikes from the current level. But more than the number, it is the uncertainty on the policy front which is bothering the market most. We have not witnessed such open war declared by the Central Bank against inflation since 1997, when the monetary policy assumed greater relevance post abolition of issuance of ad hoc treasury bills. The RBI is now directly attacking the demand side of the economy by its policy actions. The logic of the Central Bank is simple. If we do not have enough spare capacity in the economy, but our demand situation remains buoyant, then the manufacturer can pass on the commodity/energy cost pressure easily to the end users, resulting in inflation in the economy. Therefore, if the supply is constrained in the economy, then even normal money supply will act as excess money supply

from inflation management perspective. The Central Bank is directly attacking the demand side of the economy by way of high rates and scarce money supply. The expectation of the Central Bank is, if the demand buoyancy can be deflated, then the manufacturer will be compelled to sustain the margin hit or absorb the inflation in their P&L and as a result, the inflation will not be passed on to the end users. This is indeed bad news for the equity market. The rate sensitive and highly leveraged investment cycle related stocks are taking most of the beating. But that only makes the valuations of these stocks more compelling. India's growth still remains intact. It is just a moderate to severe turbulence phase. Let us hope that discontinuation of QE2 will lead to gradual moderation in the commodity and energy prices, which in turn will ease pressure on inflation, in the days to come. Good monsoon, moderating commodity / energy prices and certainty on the rate front will then incentivize corporate India towards capacity addition and fresh value will be created in the economy. But till then, there will be turbulence.

The fund managers like the commanders of the flights that night, need to decide their course of action today, depending on their fund mandate and perspective. While the defensive fund managers may settle for a circuitous route to ensure a smooth flight, the aggressive ones will decide to fly through the monsoon. The defensive fund managers will adopt a hide-out strategy behind cash or less rate sensitive high-premium-high-earning-visibility stocks. On the other hand, aggressive fund managers will take some price pain and time pain during this turbulent time and stay invested in valued and high growth stocks, as they may be confident that there is a smooth path waiting ahead. Either way, the investor must remember that all turbulence comes to an end. If you have already boarded the aircraft then Just sit tight and fasten your seat belt. If you are not yet boarded, then you need to choose between the two flights. A smoother one or a quicker one?

Regards

Saibal Ghosh  
Chief Investment Officer

# Fund Managers

## Fixed Income and Hybrid Funds

### Mr. Imran Sayed

**Qualification** : Awarded CFA charter by CFA Institute - 2006 FRM - 2005

**Experience** : 10 years

## Equity

### Mr. Jyoti Prakash

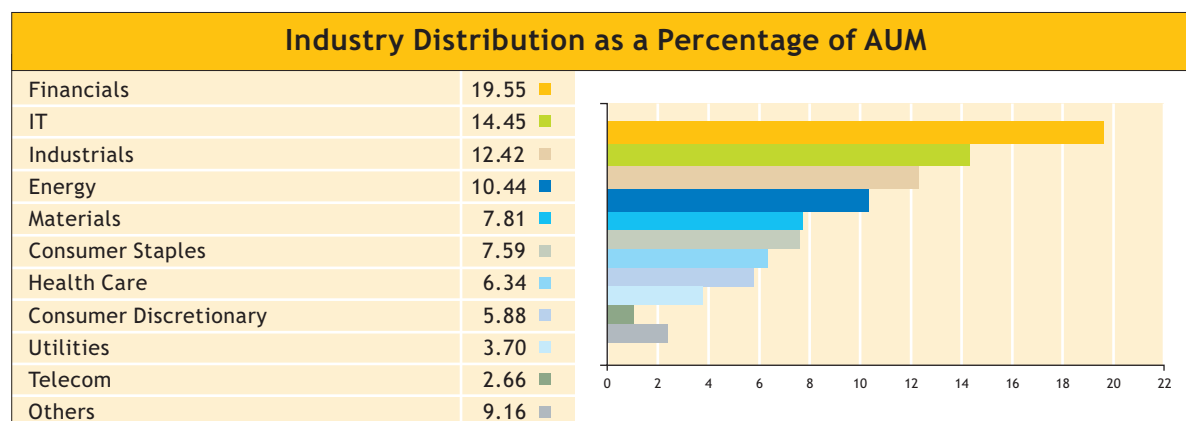
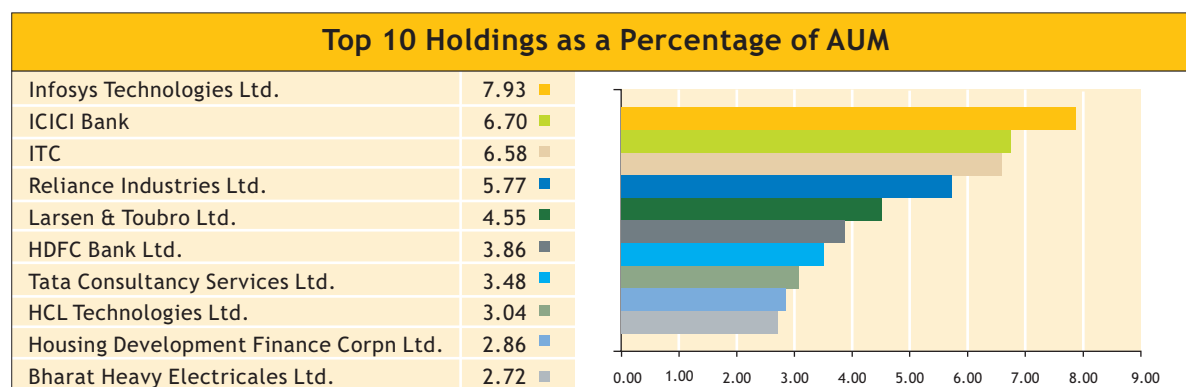
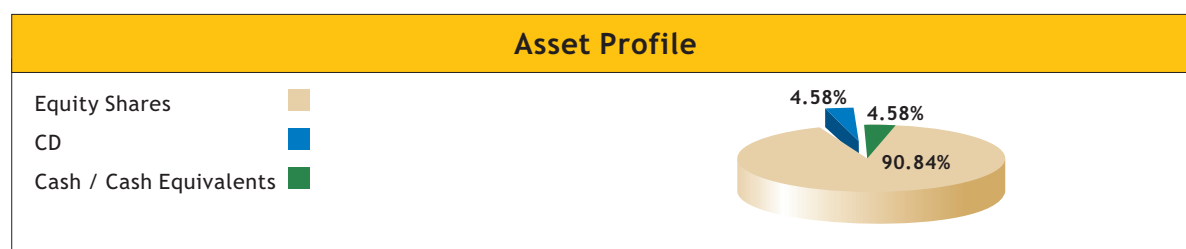
**Qualification** : CFA-1993 PGDRM (IRMA)

**Experience** : 25 years

# Enhanced Equity Fund

**Fund Manager** : Mr. Jyoti Prakash

**Investment Objective** : This fund will aim to invest in a well-diversified portfolio of equity instruments, and generate attractive returns in the long term.



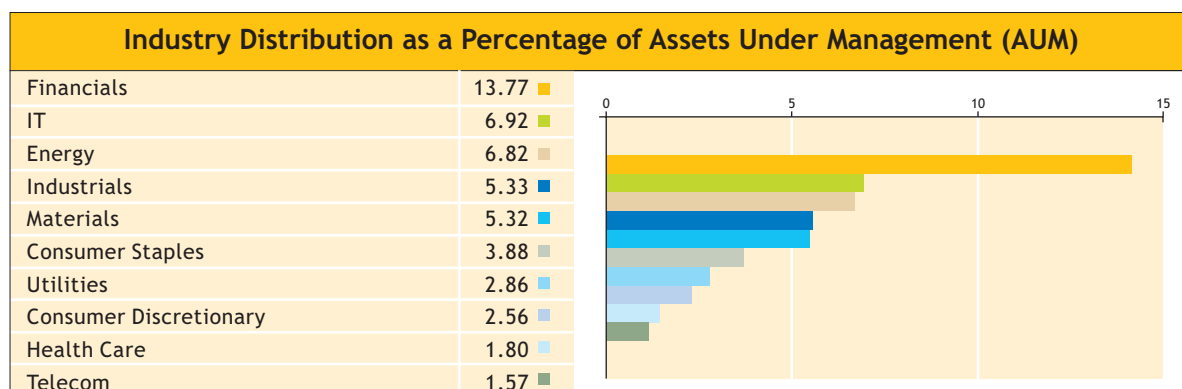
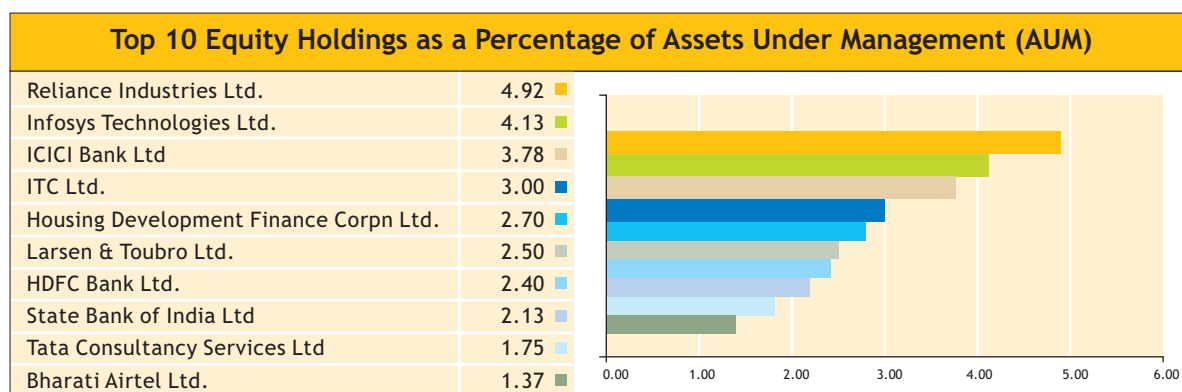
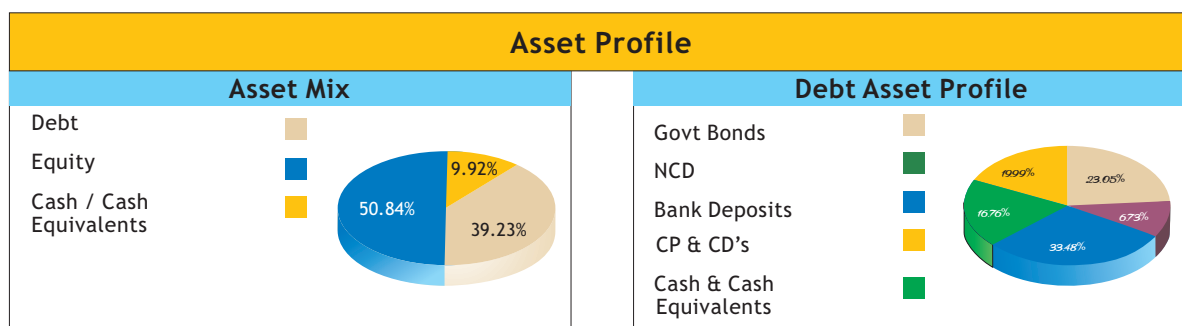
**Returns**

	6 months (abs)	1 Year (abs)	Since inception - July '08 (abs)
Enhanced Equity Fund	-6.09%	9.41%	29.57%
Nifty	-5.16%	9.32%	25.41%

# Balanced Fund

**Fund Manager** : Mr. Imran Sayed

**Investment Objective** : This fund will aim to maintain a balance between equity and debt exposure, so as to generate stable and attractive long term returns.



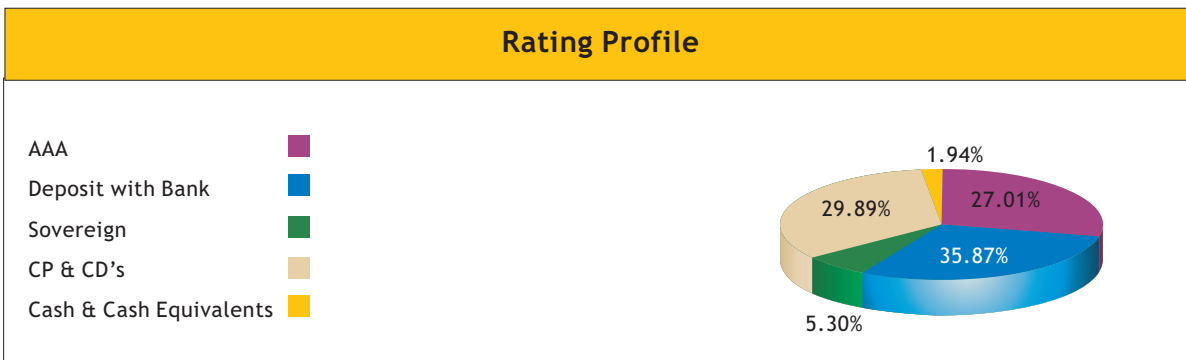
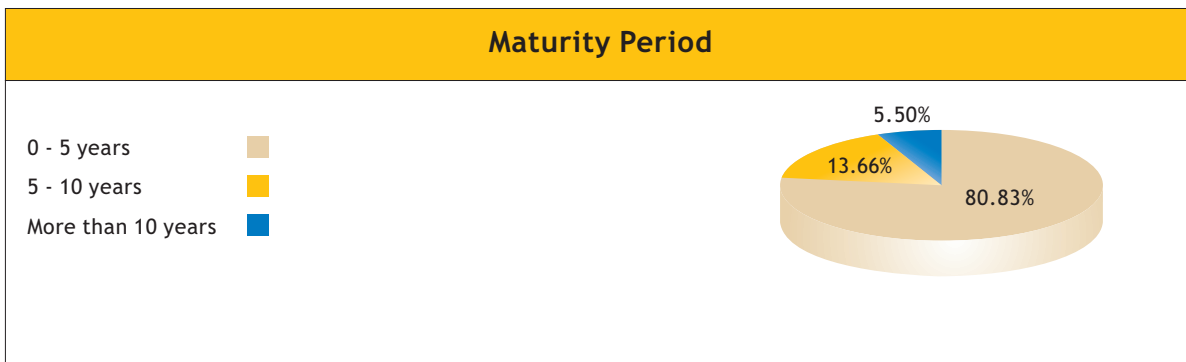
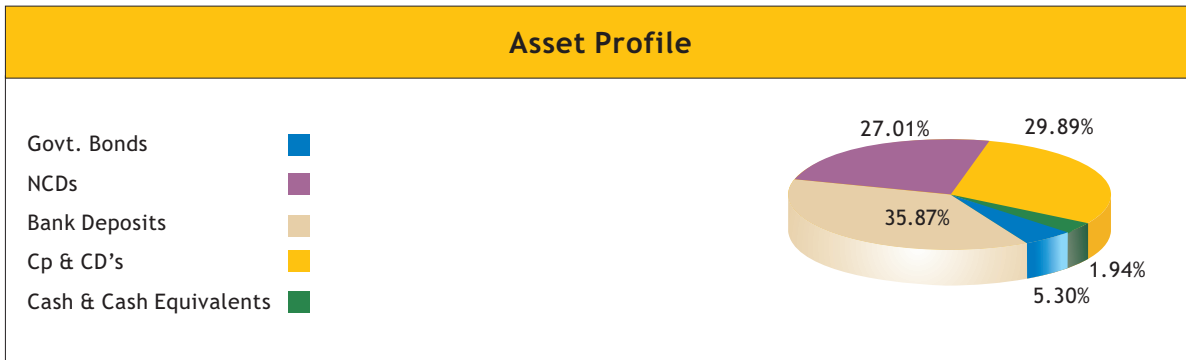
### Returns

	6 months (abs)	1 Year (abs)	Since inception - July '08 (abs)
Balanced Fund	-2.54%	7.48%	26.83%

# Debt Fund

**Fund Manager** : Mr. Imran Sayed

**Investment Objective** : This fund will aim to generate attractive returns by investing in a diversified portfolio of government debt, corporate debt, money market instruments and other fixed income securities of varying maturities.



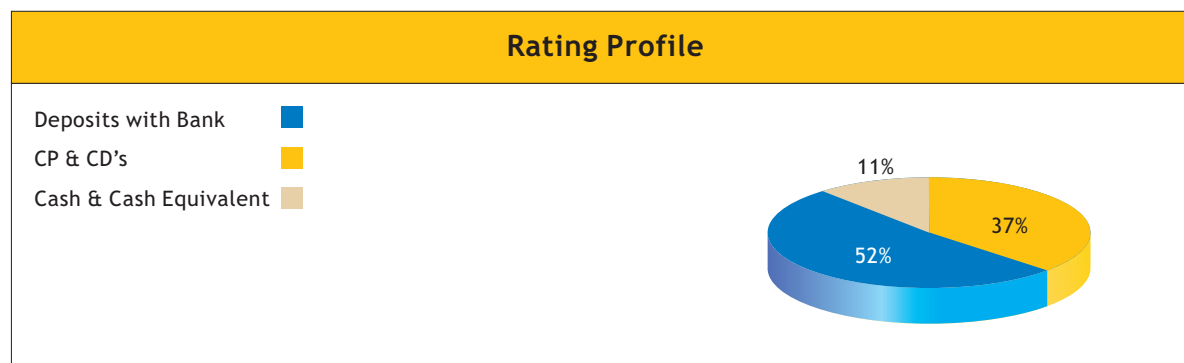
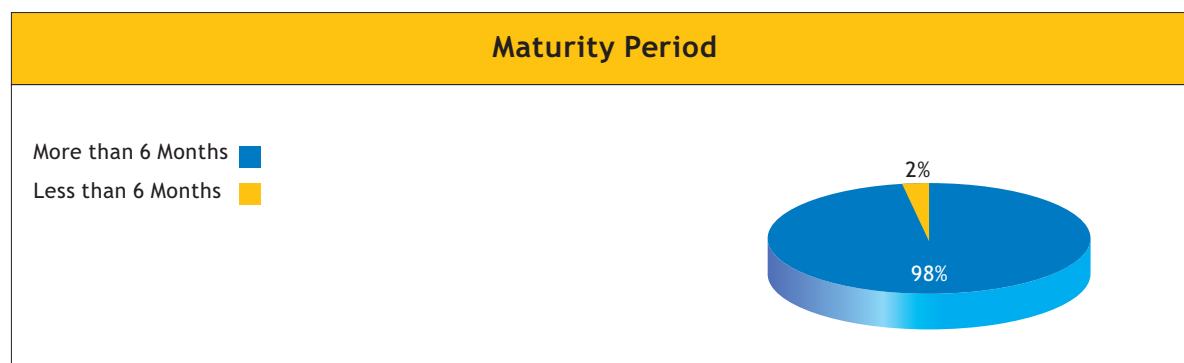
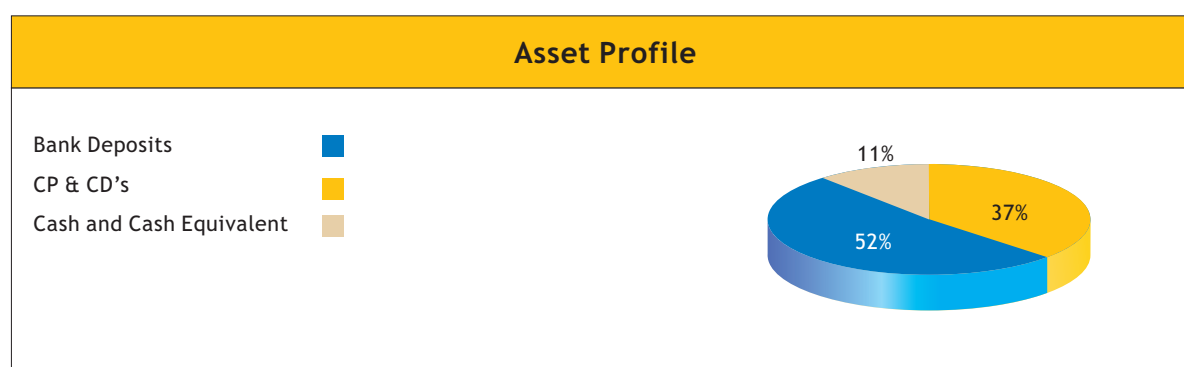
### Returns

	6 months (ann)	1 Year (ann)	Since inception - July '08 (ann)
Debt Fund	5.19%	5.96%	13.19%

# Secure Fund

**Fund Manager** : Mr. Imran Sayed

**Investment Objective** : This fund aims to invest in a diversified portfolio of money market instruments and other fixed income securities of short to medium term maturities. The main objective will be to generate reasonable returns with very low valuation risks.



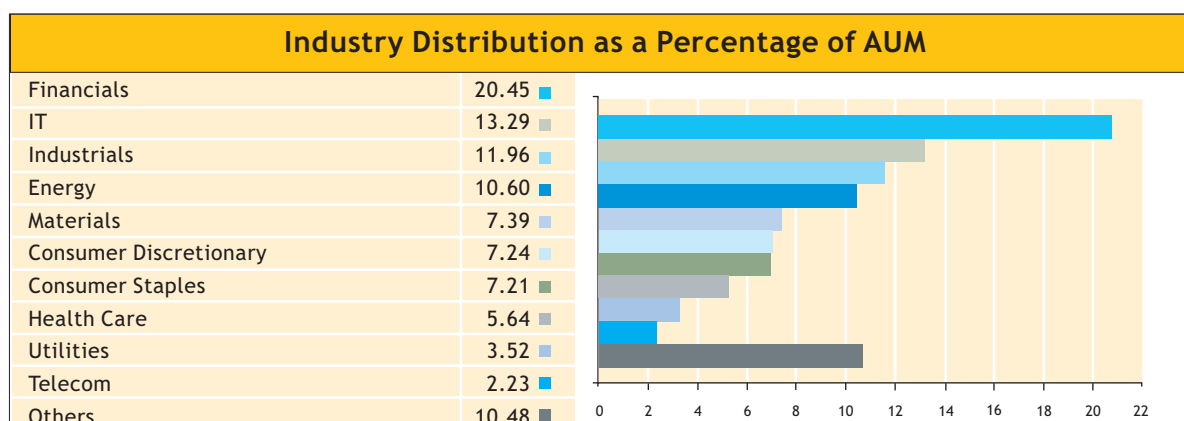
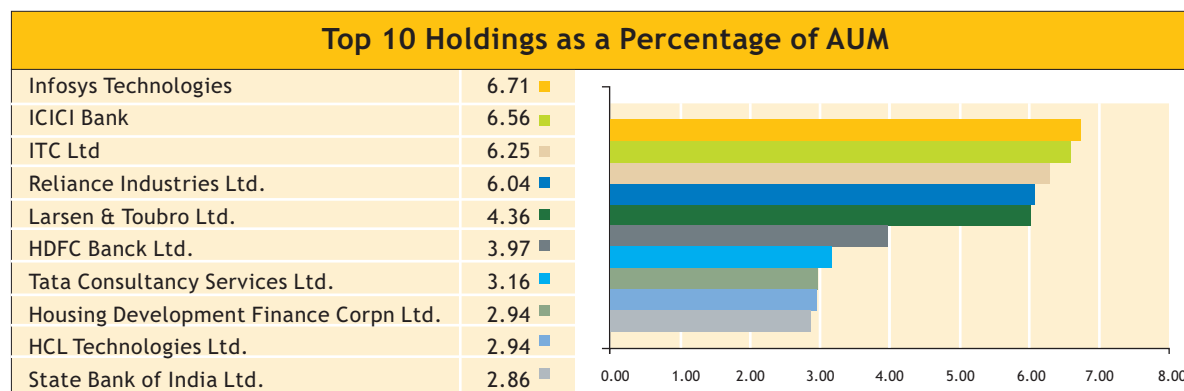
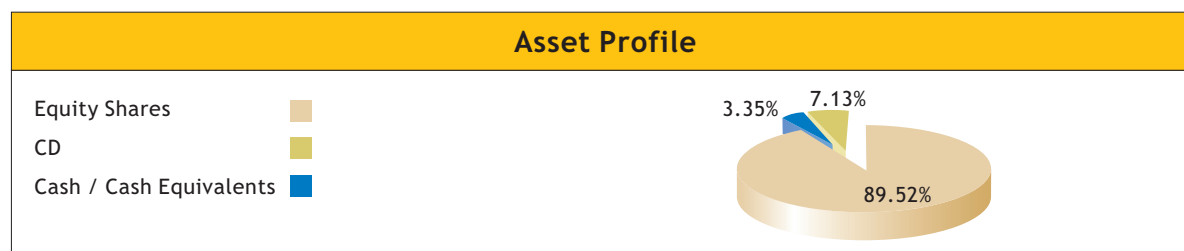
### Returns

	6 months (ann)	1 Year (ann)	Since inception - July '08 (ann)
Secure Fund	7.73%	6.81%	7.88%

# Accelerator Fund

**Fund Manager** : Mr. Jyoti Prakash

**Investment Objective** : This fund will aim at investing in equities of various sectors to diversify the portfolio and to generate attractive returns in long-term. This fund will also have the flexibility of investing up to 20% in fixed interest assets and money market instruments.



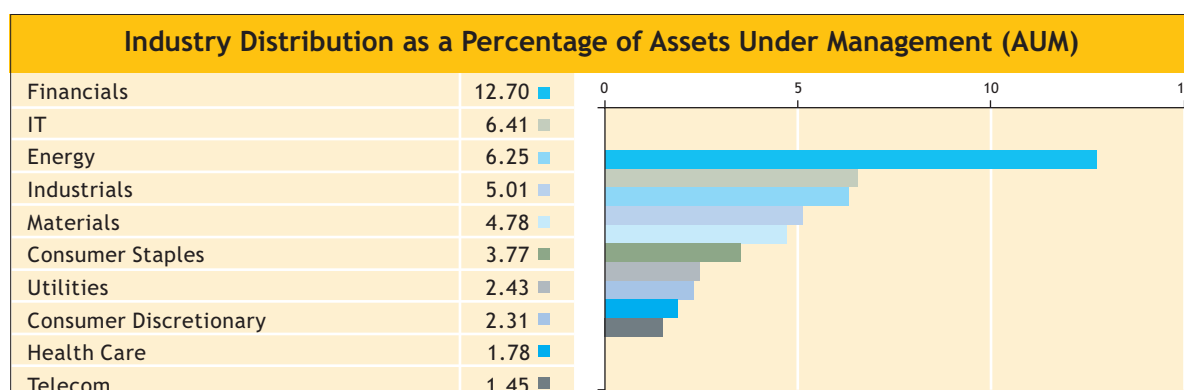
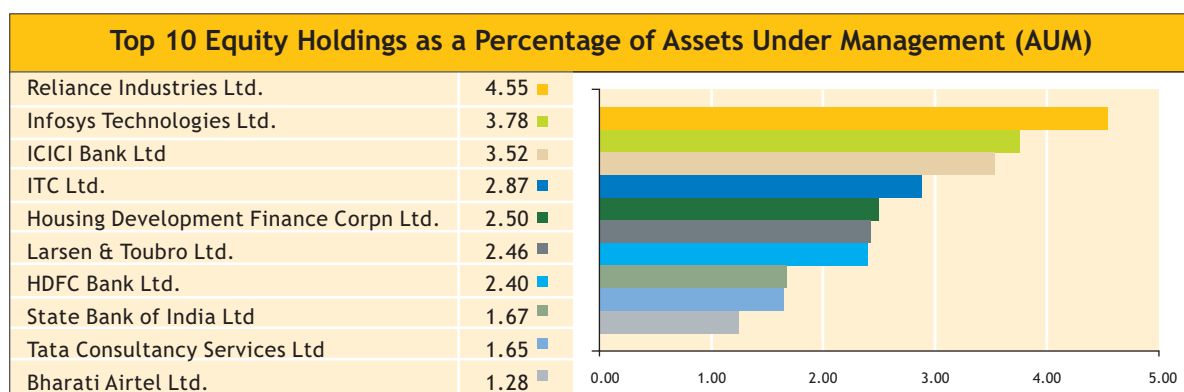
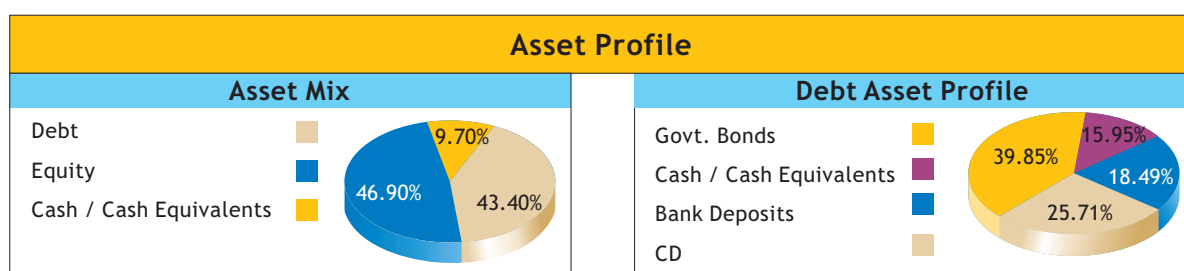
**Returns**

This fund is in accumulation stage. The return earned since inception (16th September, 2010) is (-7.04%).

# Stable Fund

**Fund Manager** : Mr. Imran Sayed

**Investment Objective** : This fund will aim to maintain a balance between equity and debt exposure, so that the client has a stable and attractive long term return. The fund will also shift allocation between debt and equity to gain from asset price movements over medium to long term.



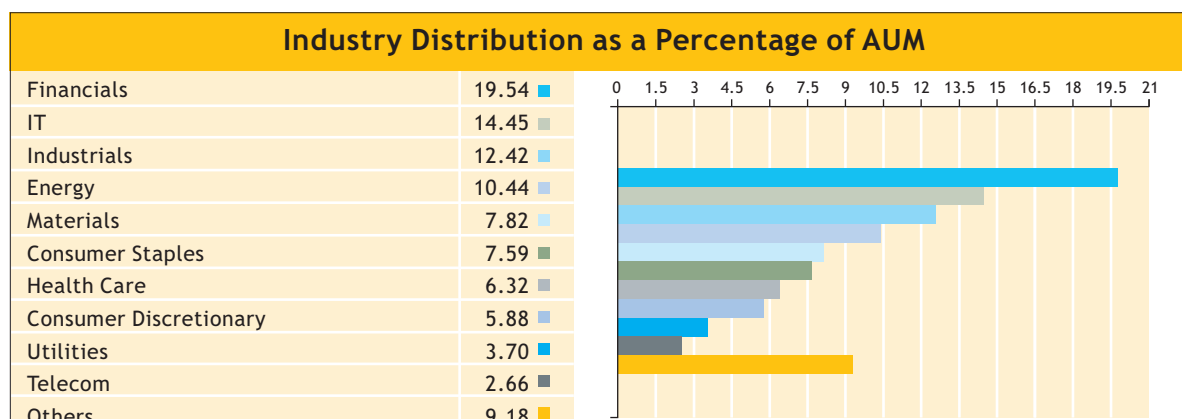
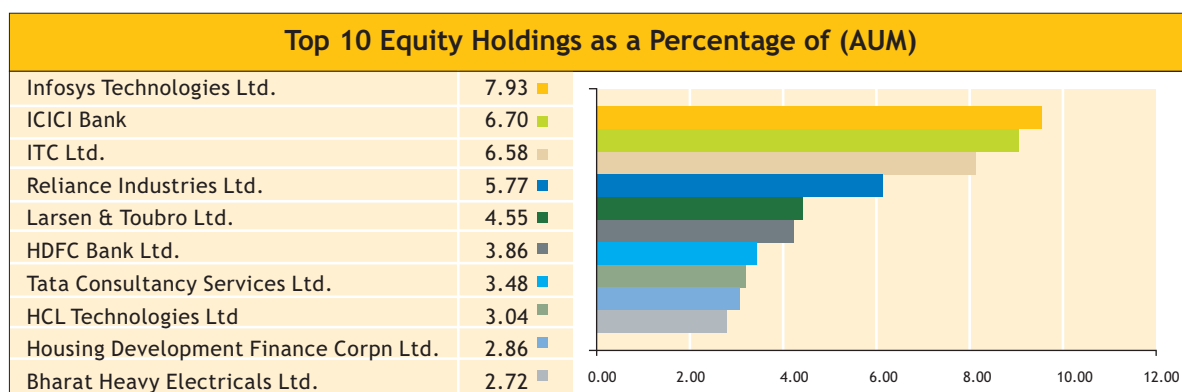
### Returns

This fund is in accumulation stage. The return earned since inception (24th Sept, 2010) is (-2.95%)

# Pension Enhanced Equity Fund

**Fund Manager** : Mr. Jyoti Prakash

**Investment Objective** : This fund will aim at investing in equities of various sectors to diversify the portfolio and generate attractive returns in the long term. The fund will also have the flexibility to invest in money market instruments and other short term Fixed Income Securities up to 20%.



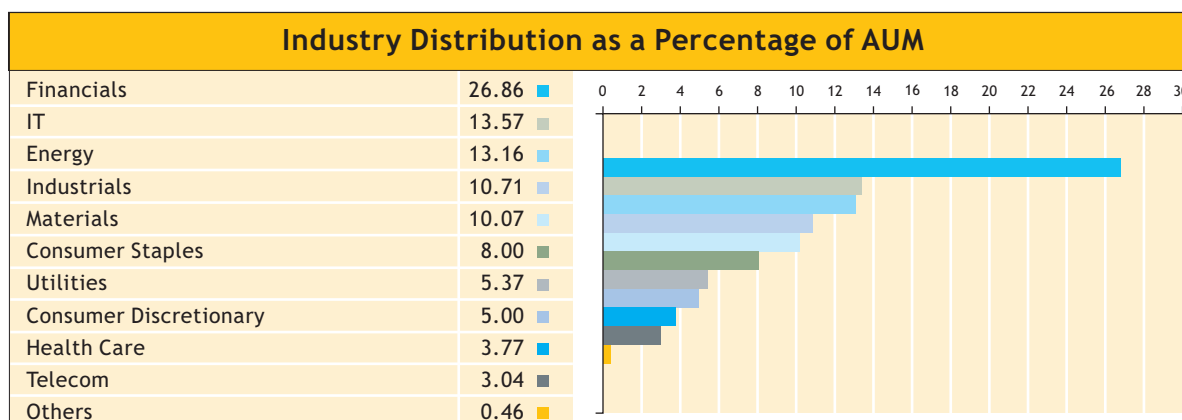
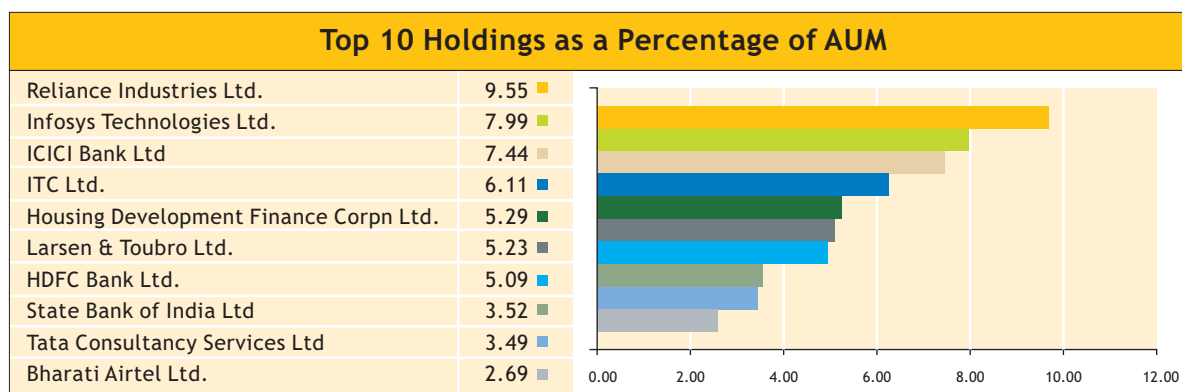
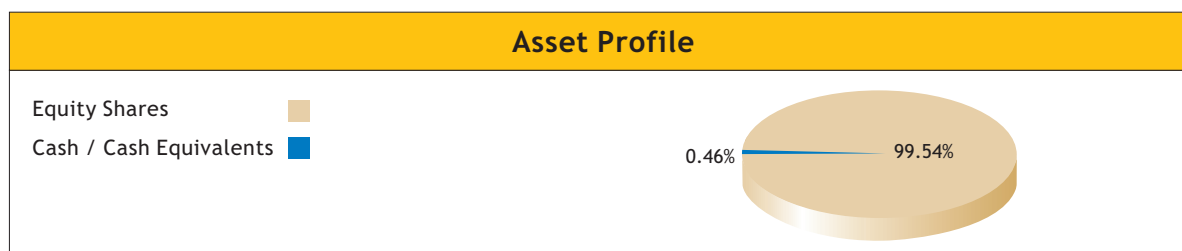
**Returns**

	6 months (abs)	1 Year (abs)	Since inception - Jan '09 (abs)
Pension Enhanced Equity Fund	-6.28%	11.14%	106.53%
Nifty	-5.16%	9.32%	95.35%

# Pension Index Fund

**Fund Manager** : Mr. Jyoti Prakash

**Investment Objective** : This fund aims at investing in equities but does not take stock-specific risks, replicating the market performance at low cost. The fund is indexed to Nifty 50.



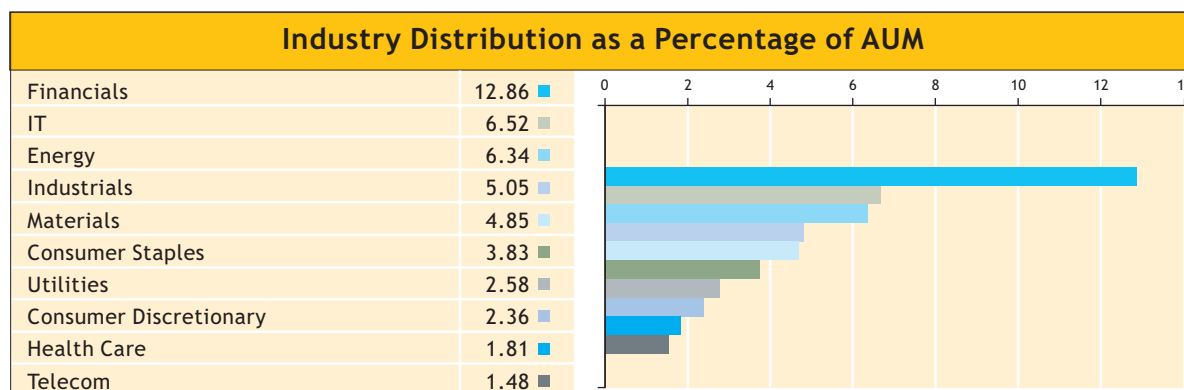
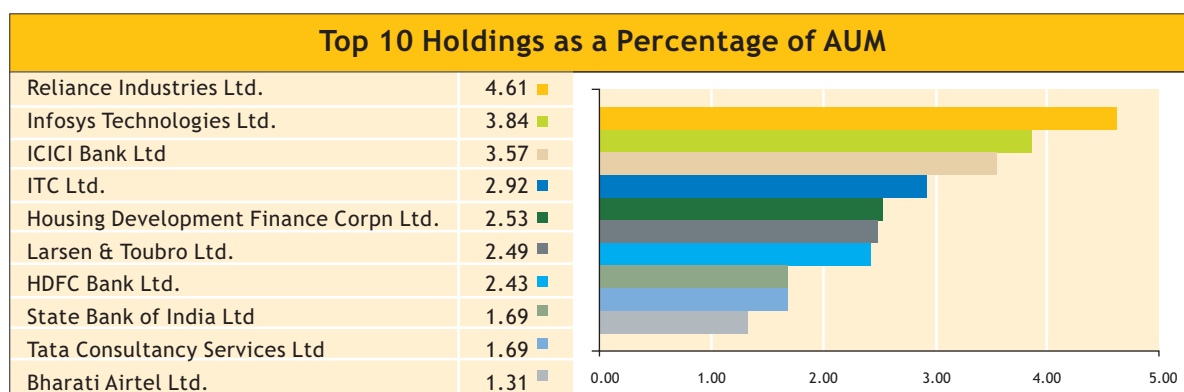
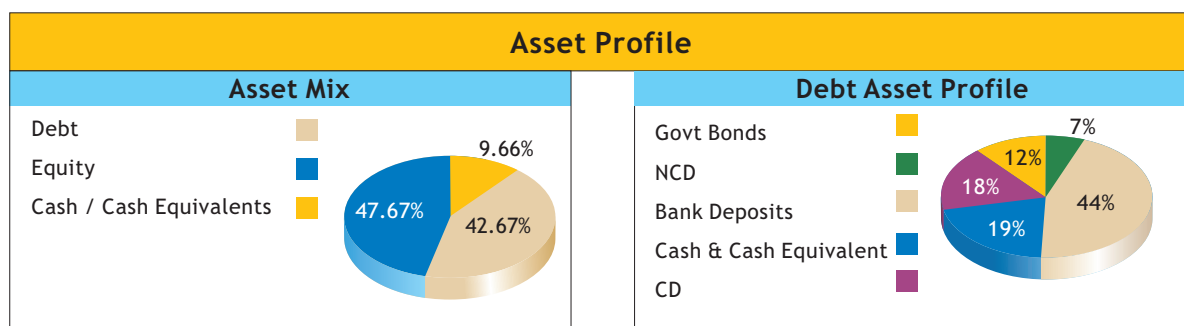
### Returns

	6 months (abs)	1 Year (abs)	Since inception - Jan '09 (abs)
Pension Index Equity Fund	-5.39%	9.14%	101.84%
Nifty	-5.16%	9.32%	104.88%

# Pension Balanced Fund

**Fund Manager** : Mr. Imran Sayed

**Investment Objective** : This fund will aim to protect the capital value of the fund and provide attractive returns to the policyholder in the long run.



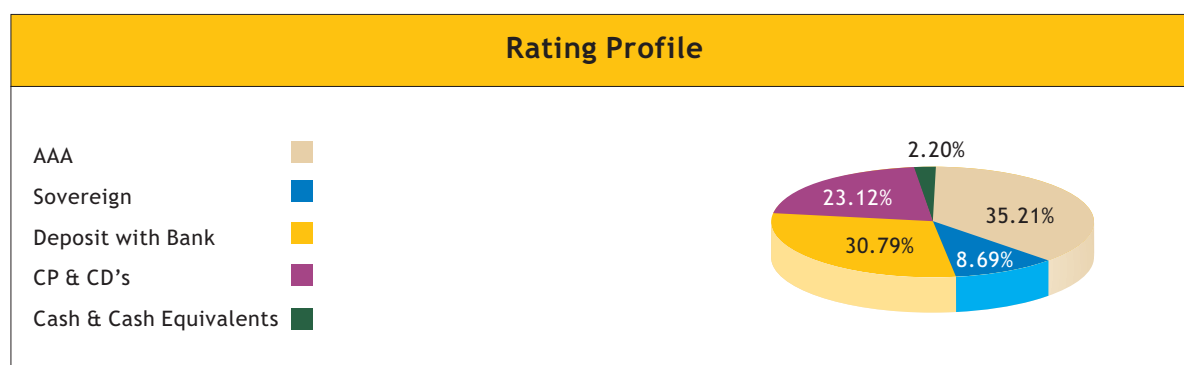
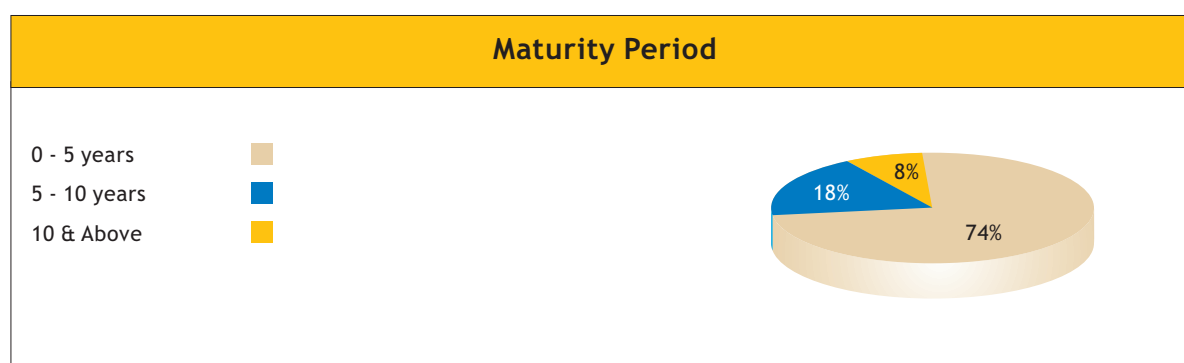
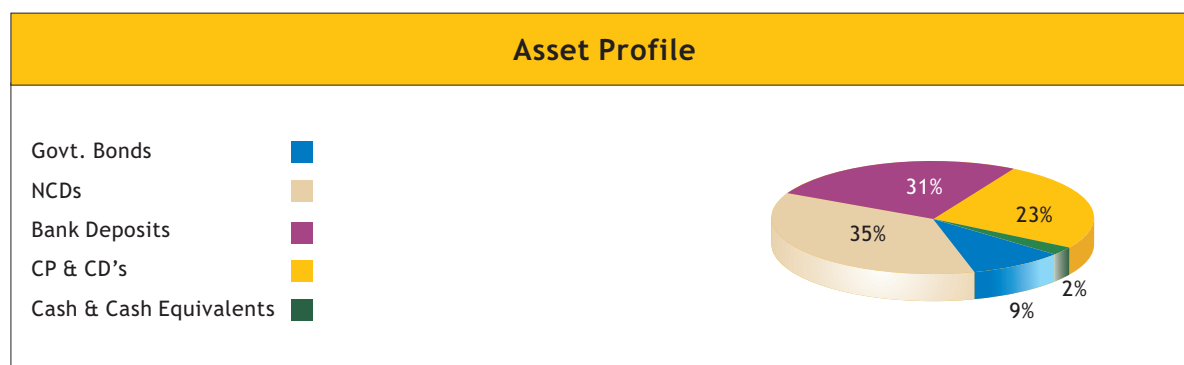
### Returns

	6 months (abs)	1 Year (abs)	Since inception - Jan '09 (abs)
Pension Balanced Fund	-2.25%	7.93%	35.50%

# Pension Debt Fund

**Fund Manager** : Mr. Imran Sayed

**Investment Objective** : This fund aims at generating attractive investment income by taking interest rate views and investing in a diversified portfolio of government debt, corporate debt and money market instruments of varying maturities.



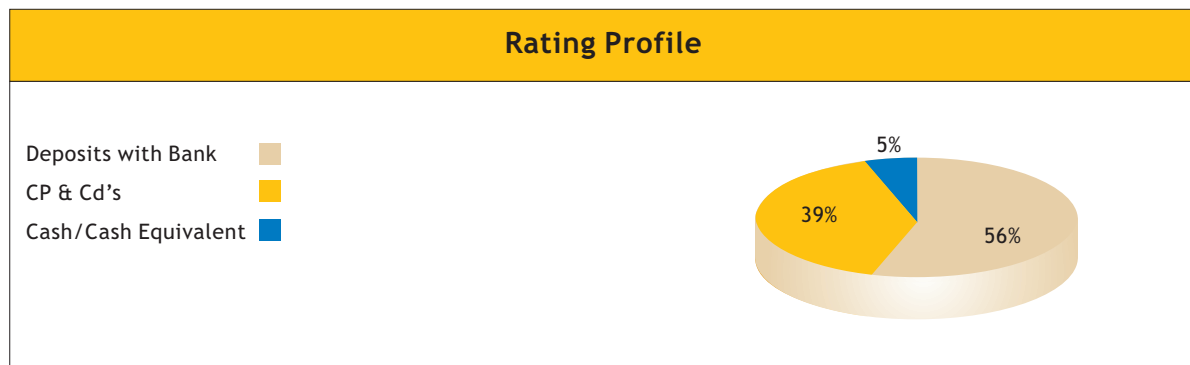
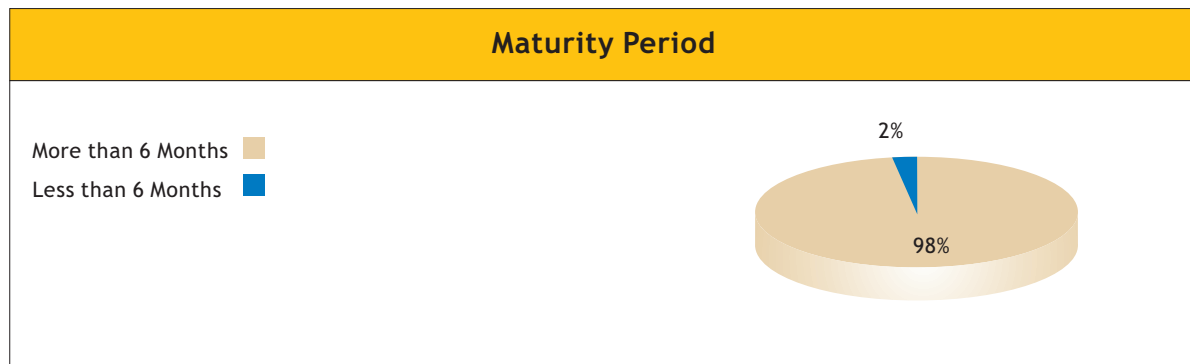
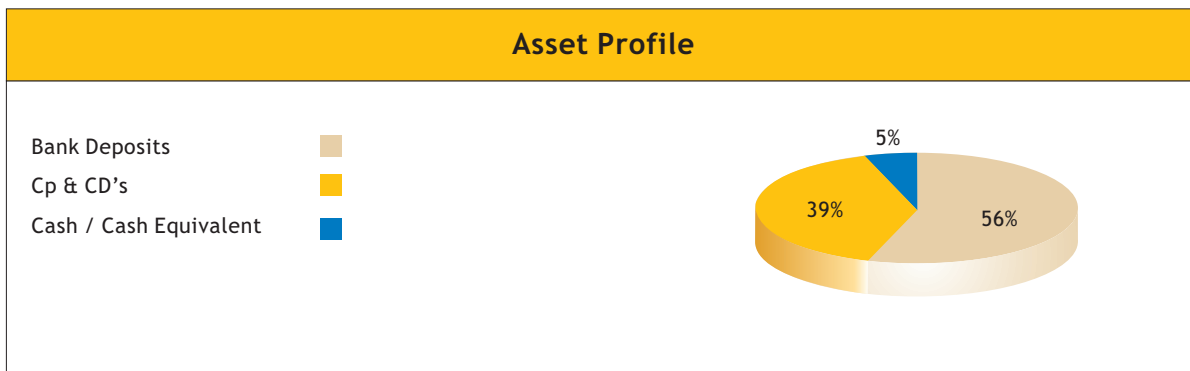
### Returns

	6 months (ann)	1 Year (ann)	Since inception - Jan '09 (ann)
Pension Debt Fund	3.96%	5.02%	6.29%

# Pension Secure Fund

**Fund Manager** : Imran Sayed

**Investment Objective** : This fund aims at investing in a diversified portfolio of debt and money market instruments of short to medium term maturities. The main objective will be to generate investment income with very low volatility risk since asset durations would be reasonably small.



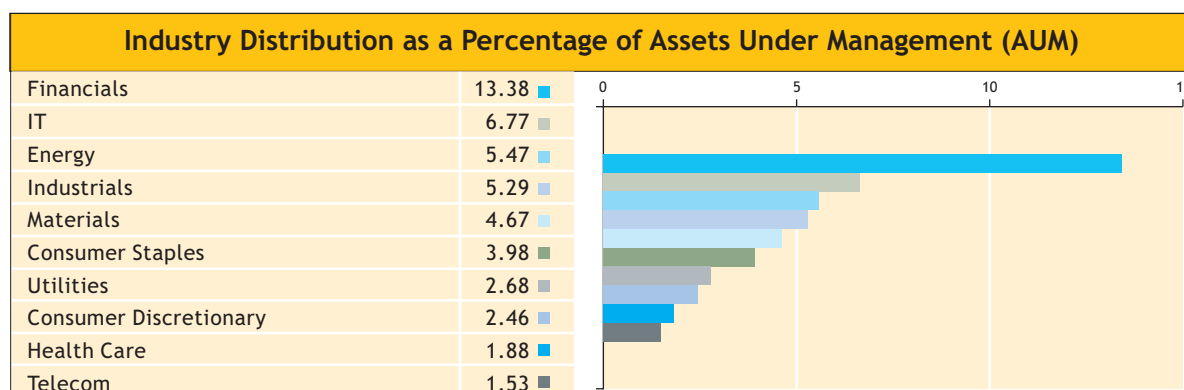
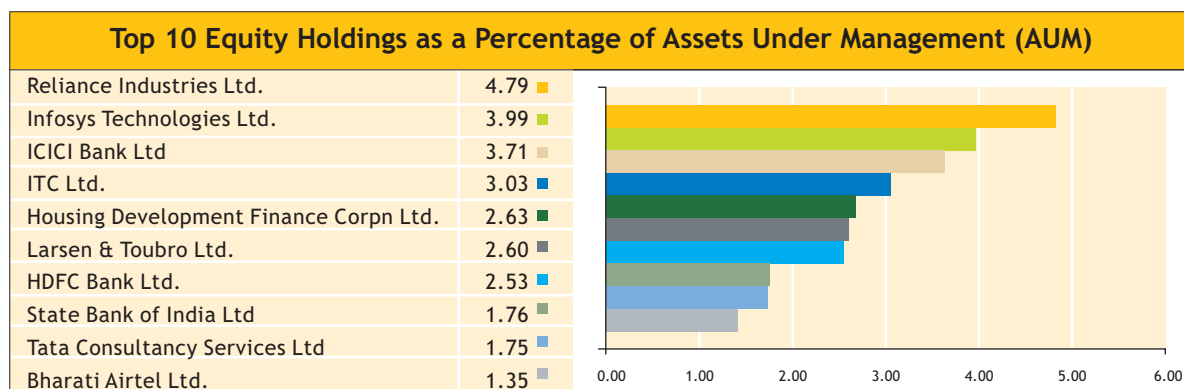
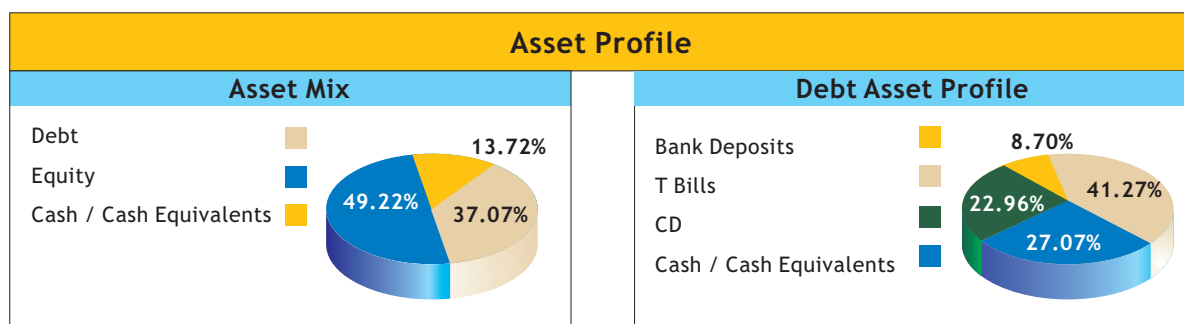
### Returns

	6 months (ann)	1 Year (ann)	Since inception - Jan '09 (ann)
Pension Secure Fund	7.66%	6.66%	7.32%

# NAVPF Fund

**Fund Manager** : Mr. Imran Sayed

**Investment Objective** : This fund aims at restricting the fall in NAV at any point of time below 80% of the highest NAV recorded from the date of inception of this fund.



Current NAV as on 31st May, 2011 = Rs. 11.04 per unit.

80% of the highest NAV since inception (9th September, 2009) = 9.59 per unit

### Returns

	6 months (abs)	1 Year (ann)	Since inception - Sept '09(abs)
NAVPF Fund	-3.03%	8.12%	10.49%

AEGON, an international life insurance, pension and investment company, Religare, a global financial services group and Bennett, Coleman & Company, India's largest media house, have come together to launch AEGON Religare Life Insurance Company Limited (ARLI). ARLI launched its pan-India operations in July 2008, following a multi-channel distribution strategy with a vision to help people plan their life better. As a first in the industry, we offer policy servicing on the phone via Interactive Voice Response System (IVR).

### About AEGON

As an international life insurance, pension and investment company, AEGON has businesses in over twenty markets in the Americas, Europe and Asia. With headquarters in The Hague, Netherlands, AEGON companies employ approximately 28,000 people and serve over 40 million customers across the globe. AEGON has more than 160 years of experience, with its roots going back to 1844 and holds 26% equity in our Company . [www.aegon.com](http://www.aegon.com)

### About Religare

Religare Enterprises Limited (REL) is a global financial services group, with a presence across Asia, Africa, Middle

East, Europe and the Americas. The group offers a wide array of products and services, ranging from insurance, asset management, broking and lending solutions to investment banking and wealth management. With over 10,000 employees across multiple geographies, Religare serves over a million clients, including corporates and institutions, high net worth families and individuals, and retail investors. REL holds 44% equity in our Company. [www.religare.in](http://www.religare.in)

### About Bennett, Coleman & Company Limited

Bennett, Coleman & Company Limited (BCCL), part of the mammoth Times Group, is India's largest media house. It reaches out to 2,468 cities and towns all over India. BCCL owns some of the prominent entertainment brands such as Times of India, Economic Times, Times Now, Radio Mirchi, Zoom Femina and Indiatimes.com. BCCL holds 30% equity in our Company.



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