

October 2011

# Indepth

The Investment Newsletter



At the turn of the century, after a decade of reform, the southern states of Gujarat, Maharashtra, Karnataka, Andhra Pradesh and Tamil Nadu had grown by anything, between 9.5% and 11.5%, while Bihar had shrunk by 0.5%. The Finance Commission, which is established from time to time to decide on the transfer of resources from the Centre to the states in its tradition of economic propriety, allocated a higher share of resources to the slower growing states within the union. The peninsular states were aghast, and petitioned the Centre against the purported discrimination. We who have undertaken structural reforms, worked hard, prospered and grown, instead of being rewarded for our results, are being penalized at the cost of those who continue to be a drag on the economy. In a performance and reward driven neo capitalist India, the argument came across as morally sound but was economically incorrect. For a country beset with myriad insurgent threats, the differential growth rates across states were the single largest threat to the unity and integrity of the country. For a monetary union to continue as one fiscal transfers are a necessity, and there is nothing new in them. Transfers from a better off sibling to the weaker one are as old as the custom of a Hindu Undivided Family.

The EU was formed under the Maastricht Treaty, and like any other treaty it was also a compromise. To assuage the euro skeptics in the stronger nations, the treaty explicitly forbade such transfers. "Thou shall not bail out your brother", proclaimed the treaty. However, member states were bound by a Growth and Stability Pact which put limits on the FD/GDP ratios, Debt/GDP ratios and inflation rate in individual member nations. However, to assuage concerns of stronger nations swamping over the weaker one, no punitive measures were enshrined in the rules. The targets in the pact were either never reached or were often violated with Germany and Italy being offenders at different points of time. All went well till the great moderation of the 21st century lifted all boats. With no fear of a currency appreciation, Germany ran up a large current account surplus, especially with member states of the EU, which in turn enjoyed the easy money available at low interest rates as a benefit of being part of the EU. It all unraveled with the post Lehman shock, and the unearthing of an accounting scandal in Greek public finances. Once it became clear that countries like Greece would find it difficult to repay their debt, the market started building the possibility in higher interest costs for Greek debt, which made it almost certain that it would be unable to repay the debt. The EU has stepped to provide liquidity support, and that too has met with fierce political resistance within creditor nations. However, this is not a liquidity crisis but a matter of solvency for peripheral European nations, and a solid plan for present and future fiscal transfers is the only way out.

Member nations of the EU need to sit down, and draw out a plan to first effect adequate fiscal transfers to weaker nations, to avoid bankruptcy in turn for lasting structural reforms to improve their productivity and competitiveness to match the level of the Germans. What comes as a pleasant surprise is that Greece is ready to undertake tough structural reforms. The Greek government has introduced new taxes, increased the retirement age, cut salaries and pensions of government employees by 20% and has a roadmap for laying off state employees by 2015. However, these draconian measures normally unthinkable in a democracy have failed to impress the core European nations. Instead of seeing, these as their share of a collective responsibility; they see them as long overdue punishments for a serial offender. What they fail to understand, possibly because they cannot even envisage, is that in the narrow enlightened self interest of peripheral European nation, it would be best served to bail out of the euro. It could launch its own currency, and freely float it resulting in a sharp devaluation, reconfigure its euro denominated into its own currency at a ratio of 1:1 and put capital controls to ring fence its banking sector. The process would automatically result in big haircut of its debt, along with increased global competitiveness from currency devaluation, and domestic structural reforms already undertaken. The consequences would be cataclysmic for the rest of Europe, as the market would target other nations speculating on which would be next to exit. The euro would go through a disorderly unwinding and the consequences apocalyptic. The markets are increasingly factoring in a disaster, and interbank liquidity has tightened and risk aversion has risen reminiscent of the days, leading up to the Lehman crisis. One can only hope that good sense will prevail among the powers that be in Europe, and they do put their house in order. When the Lehman crisis unfolded three years back, it was seen as a one in a life time event. Even fate can't be so cruel as to subject a generation to more than once crisis of this kind.

The sovereign crisis in Europe and the ensuing risk aversion has some positive fallout for India, where the central bank is fighting to ward off a tenaciously high inflation. While the crisis has resulted in global growth expectations being scaled down, India with a high share of domestic consumption would fare relatively better. However, the sharp fall in global commodity prices would come as a big help to the central bank. While crude is down 10%, LME metal index is down 18% for the month with copper falling 23%. This will be music to RBI, which is hiking interest rates and trying to kill domestic demand to contain inflationary pressures, emanating from global financial markets. At the mid quarter review of the monetary policy, RBI surprised some in the market by hiking the Repo Rate by 25 bps, but surprised most by indicating that more rate hikes are in the offing. In the accompanying statement, RBI did accept globally,

"Concerns over the sovereign debt problem in the euro area have added further uncertainty to the prospects of recovery". On the domestic front while it accepted, "Many indicators point to moderating growth" it pointed out that "Headline and non-food manufactured products inflation are at uncomfortably high levels". While "Inflationary pressures are expected to ease towards the later part of 2011-12. In the current scenario, with the likelihood of inflation remaining high for the next few months, rising inflationary expectations remain a key risk. This makes it imperative to persevere with the current anti-inflationary stance." "Going forward, the stance will be influenced by signs of downward movement in the inflation trajectory," it guided. The recent sharp fall in prices of global commodities, has made RBI's task that much easier and inflation should start to trend lower sooner or later. With inflation still way above RBI's medium term target, we are unlikely to see an interest rate cut anytime soon, but the next hike in October might just be the last. While there are clear signs that growth is moderating, there would be further headwinds from a global slowdown. With the government having almost totally run out of fiscal ammunition, one can expect to see a couple of years of tepid growth. While this is not the India the market is used to, valuations too are at levels not seen in a long time, and should be adequate compensation for the new normal.

# Fund Managers

## Fixed Income and Hybrid Funds

Mr. Imran Sayed

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

**Experience** : 10 years

## Equity

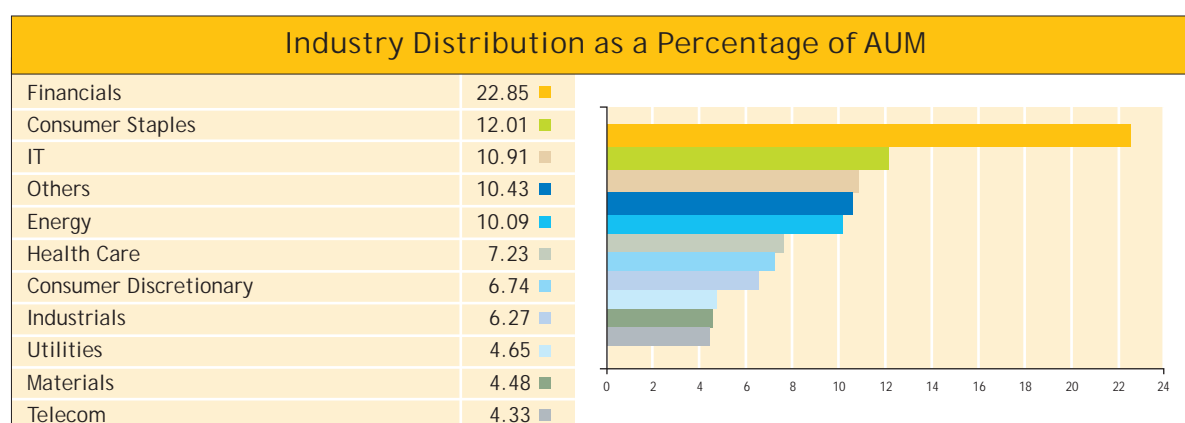
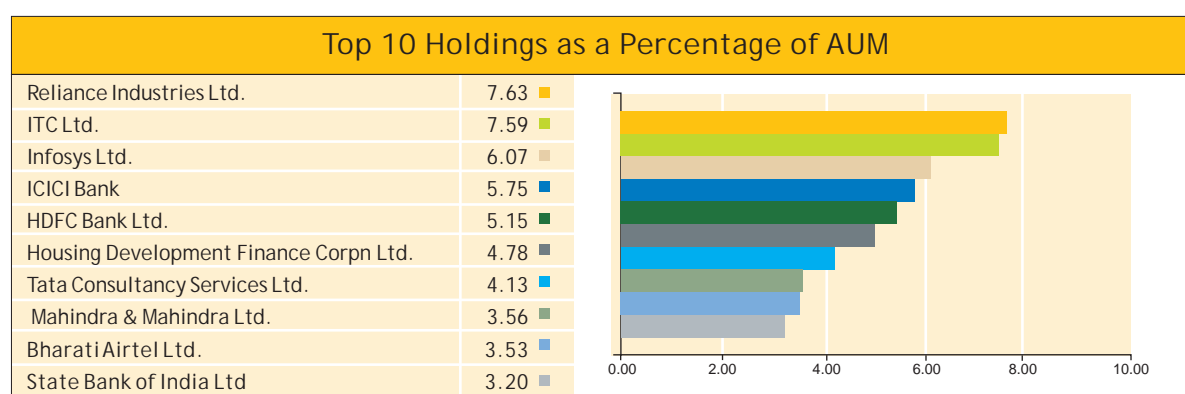
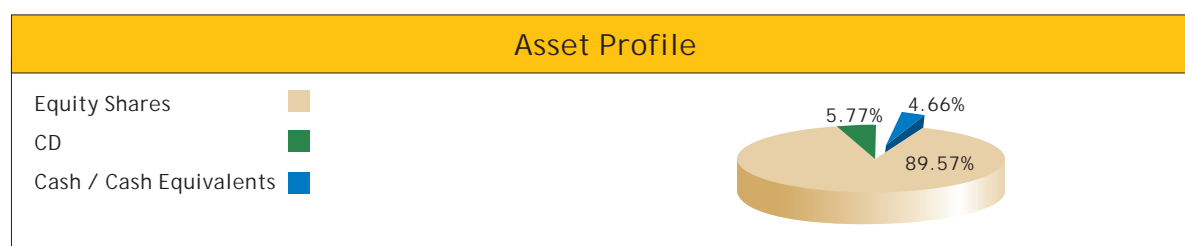
Mr. Jyoti Prakash

**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, 25th July 2008, (abs)
Enhanced Equity Fund	-11.48%	-14.62%	+19.84%
Nifty	-15.26%	-18.02%	+11.50%

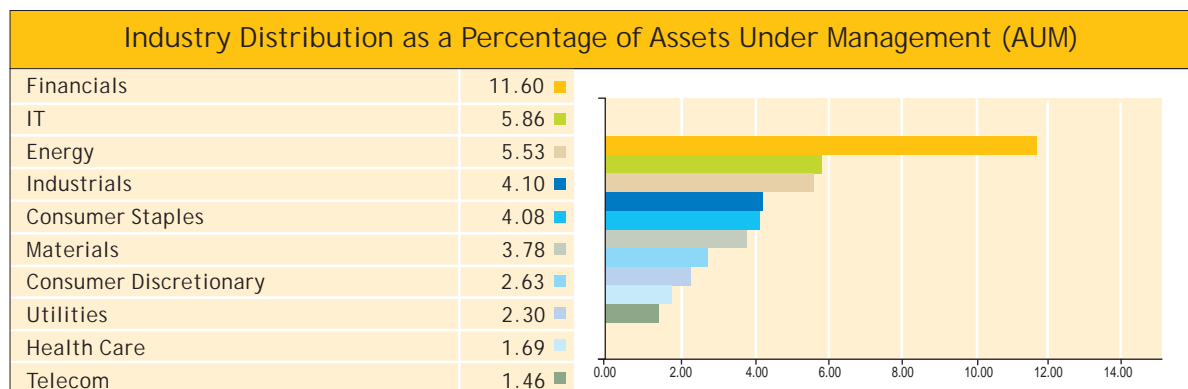
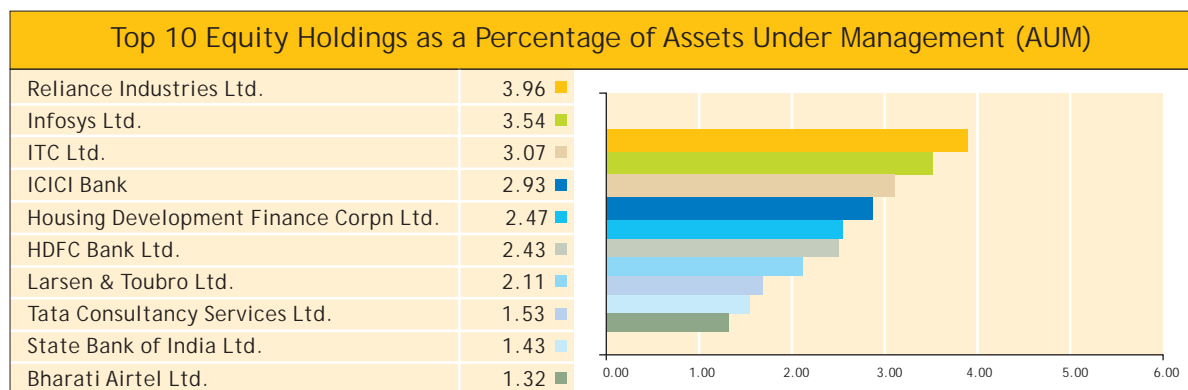
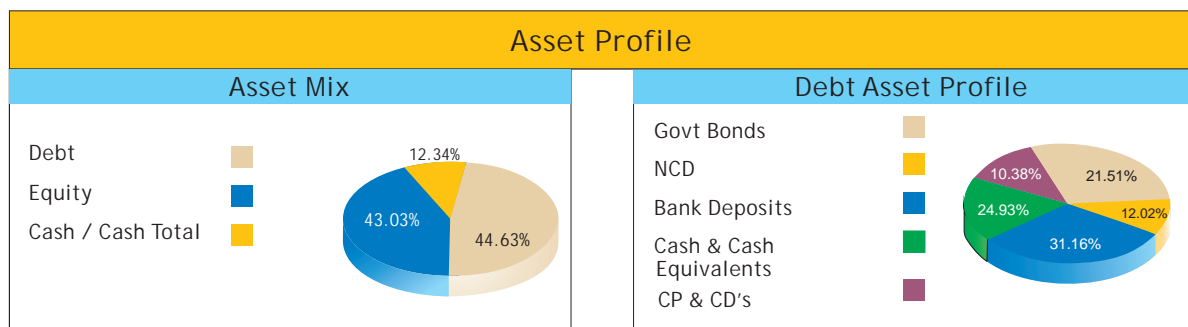
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Figures as of 30th September 2011

# 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, 20th August 2008, (abs)
Balanced Fund	-6.27%	-8.37%	+21.52%

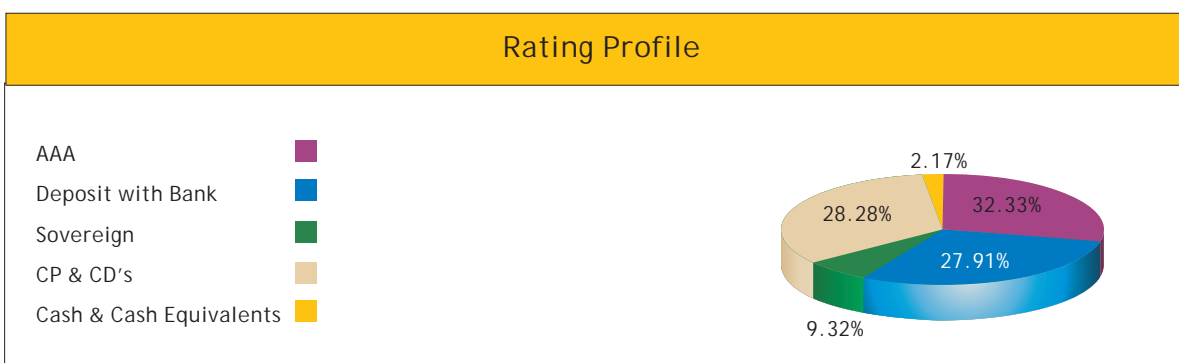
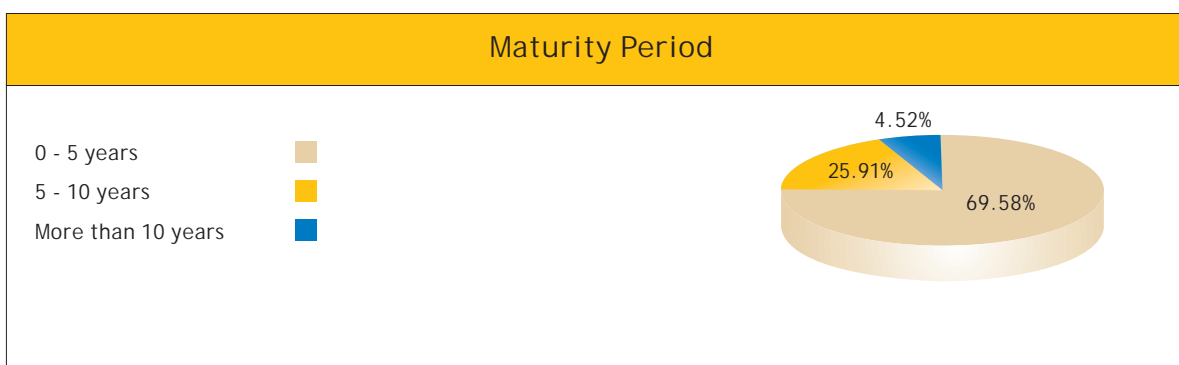
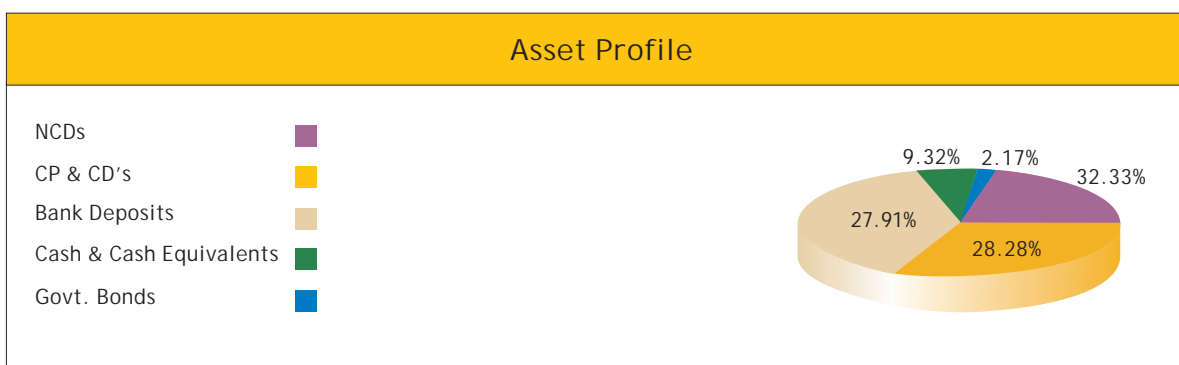
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Figures as of 30th September 2011

# 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, 20th August 2008, (ann)
Debt Fund	+8.10%	+6.86%	+13.25%

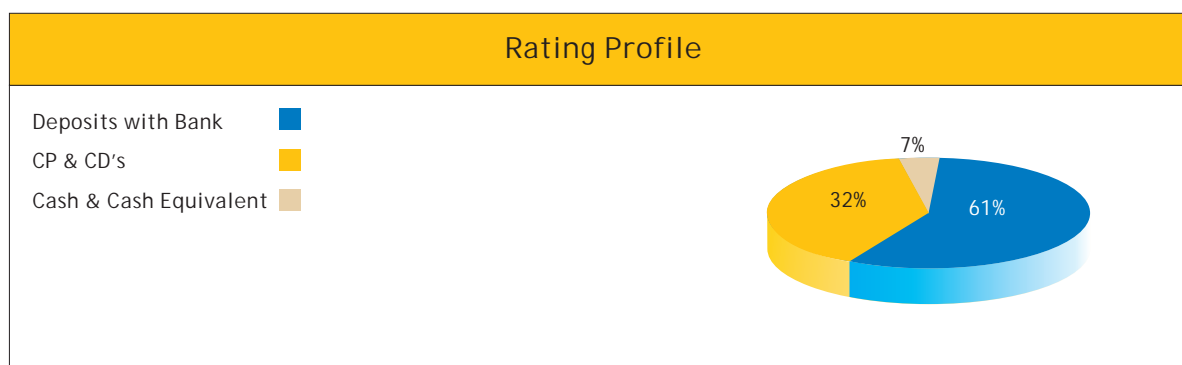
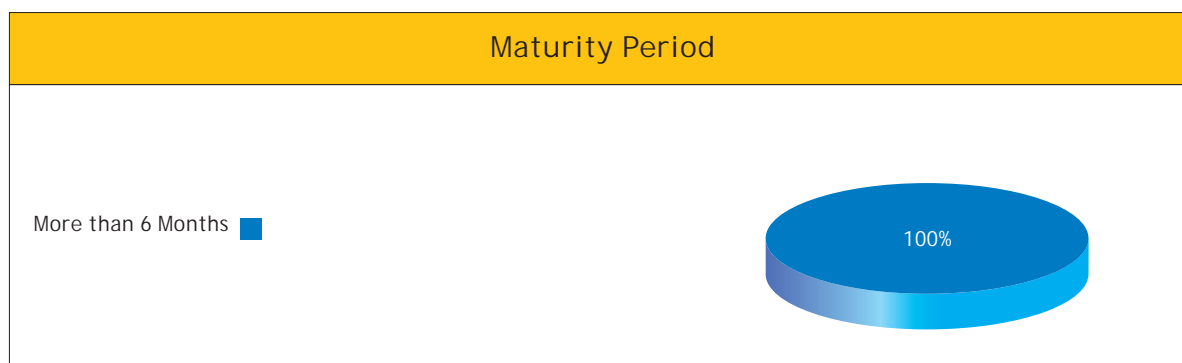
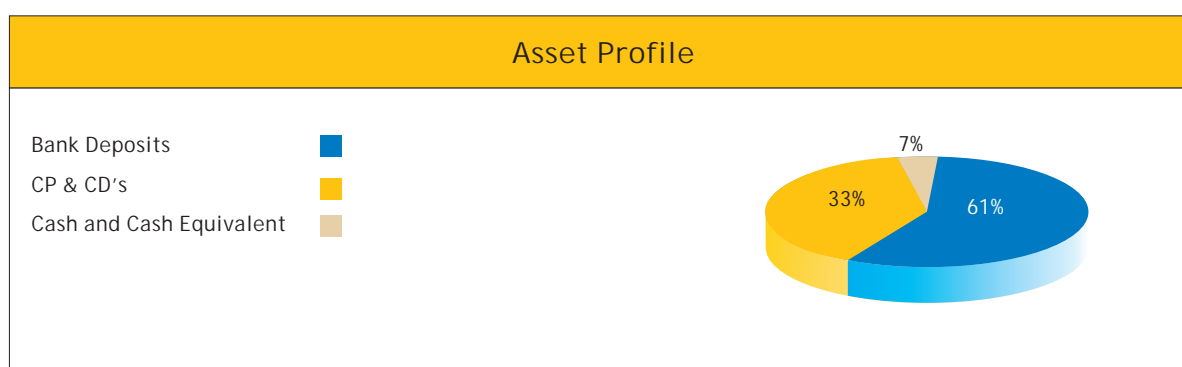
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Figures as of 30th September 2011

# 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

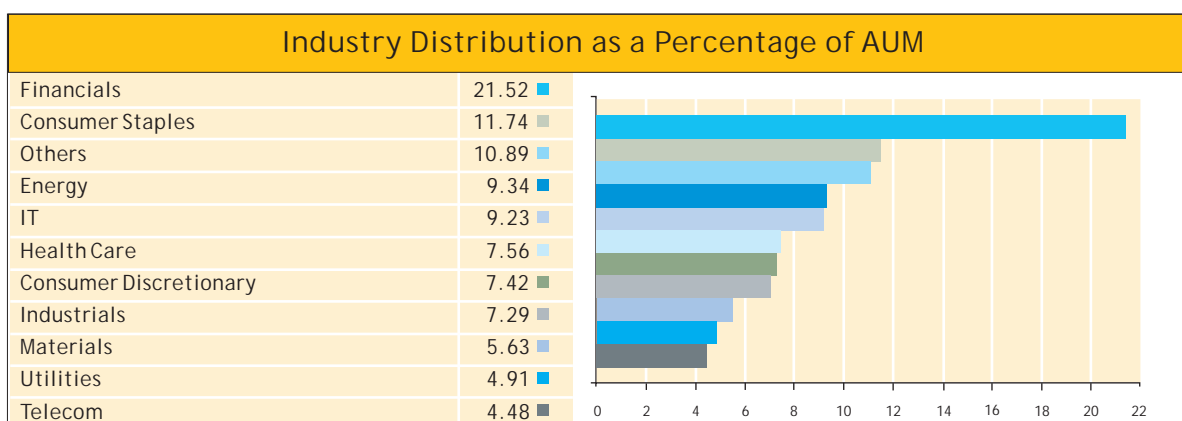
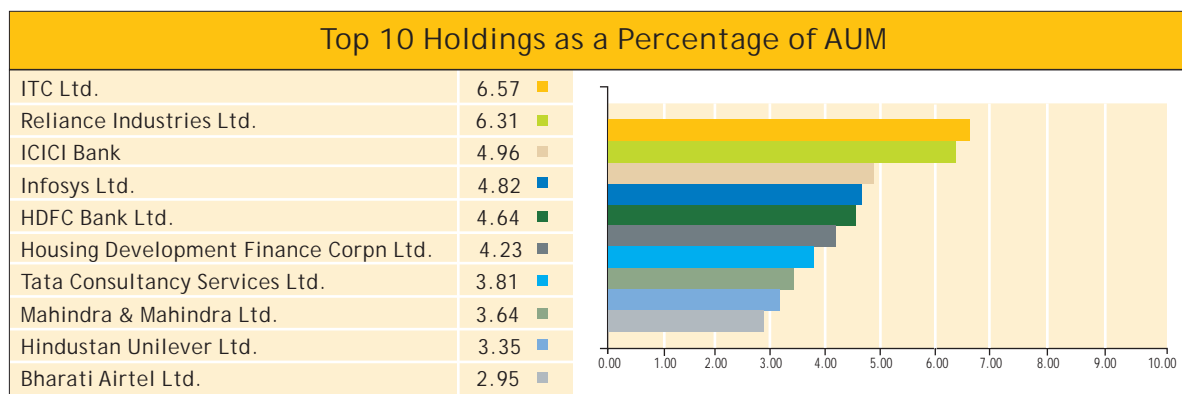
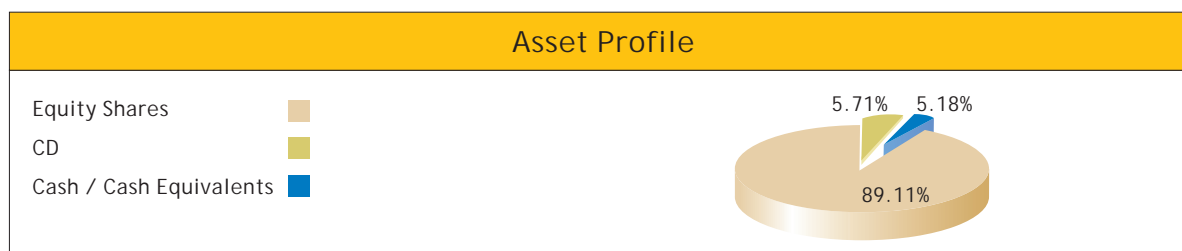
	6 months (ann)	1 Year (ann)	Since inception, 8th September 2008, (ann)
Secure Fund	+8.95%	+7.97%	+8.19%

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Figures as of 30th September 2011

# 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 to invest in fixed interest assets and money market instruments upto 20%



### Returns

	6 months (abs)	1 Year (abs)	Since inception, 16th September 2010, (abs)
Accelerator Fund	-11.82%	-15.60%	-14.43%
BSE100	-14.68%	-18.76%	-16.72%

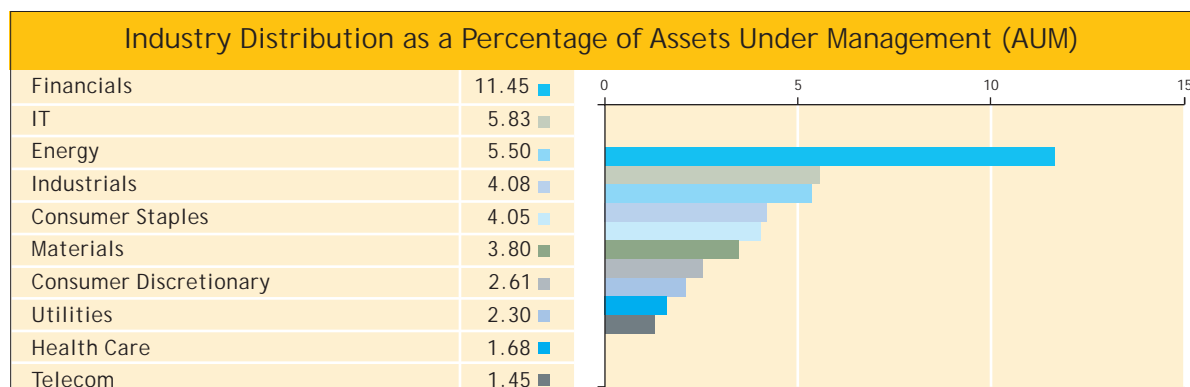
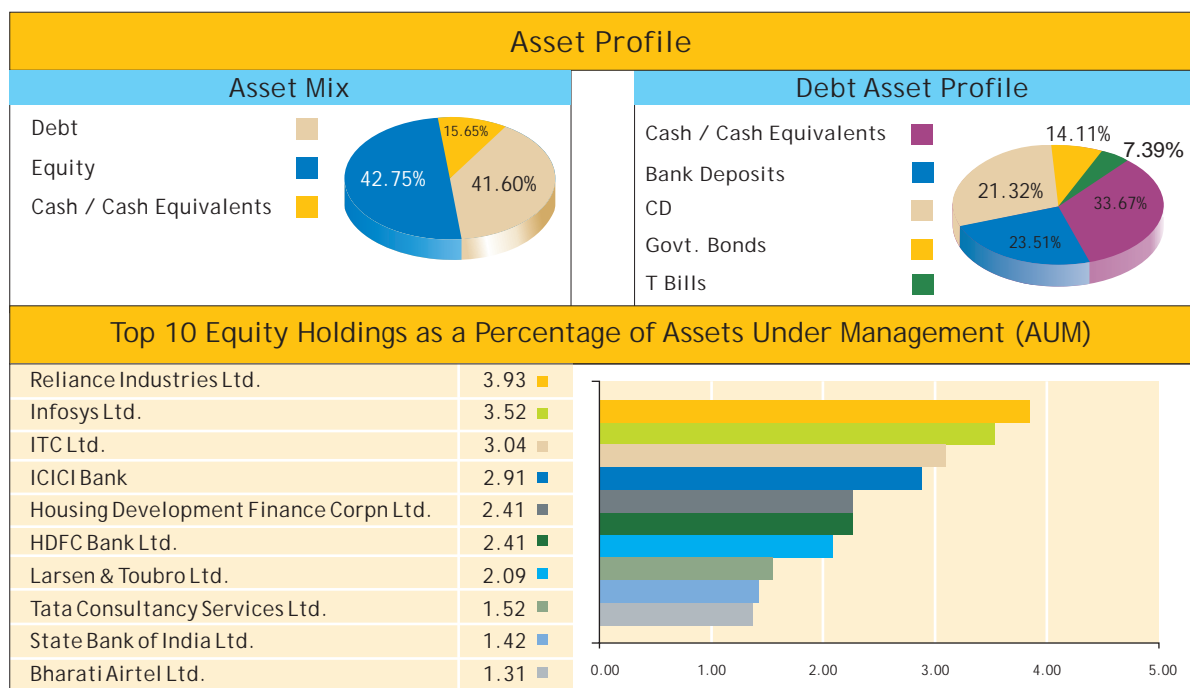
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Figures as of 30th September 2011

# 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			
	6 months (abs)	1 Year (abs)	Since inception, 24th September 2010, (abs)
Stable Fund	-6.00%	-7.08%	-7.10%

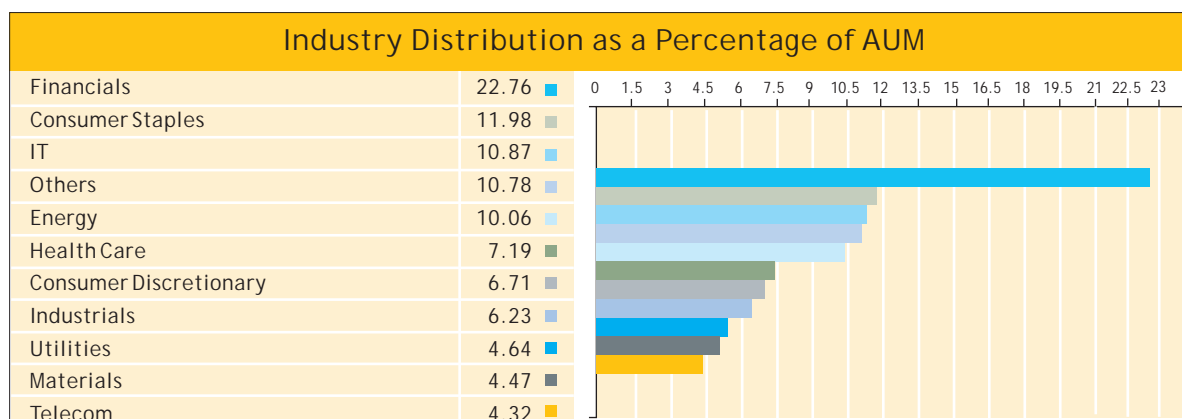
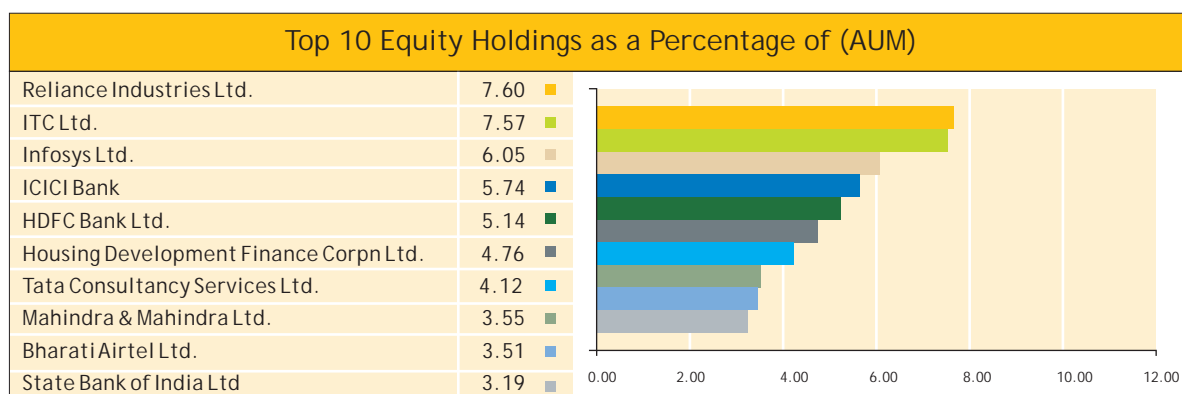
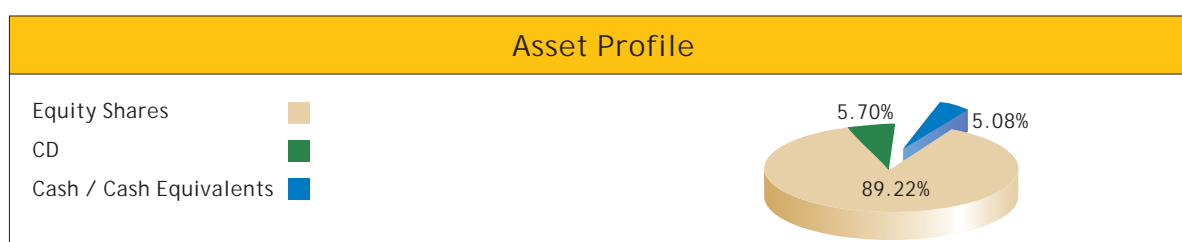
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Figures as of 30th September 2011

# 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, 19th January 2009, (abs)
Pension Enhanced Equity Fund	-11.40%	-14.68%	+90.58%
Nifty	-15.26%	-18.02%	+73.68%

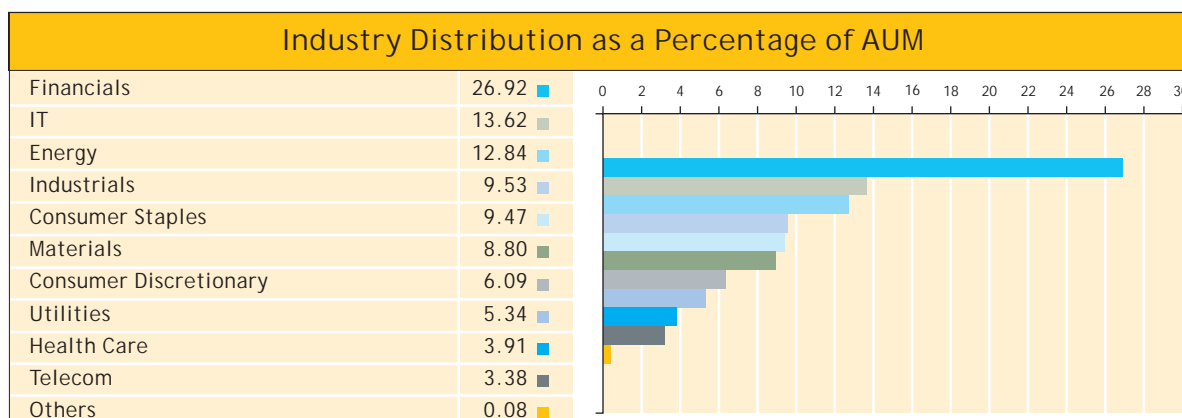
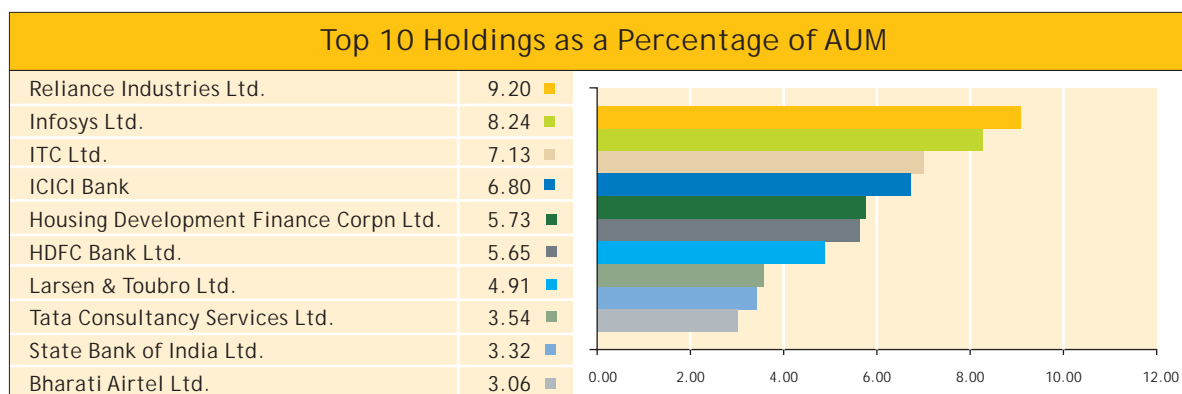
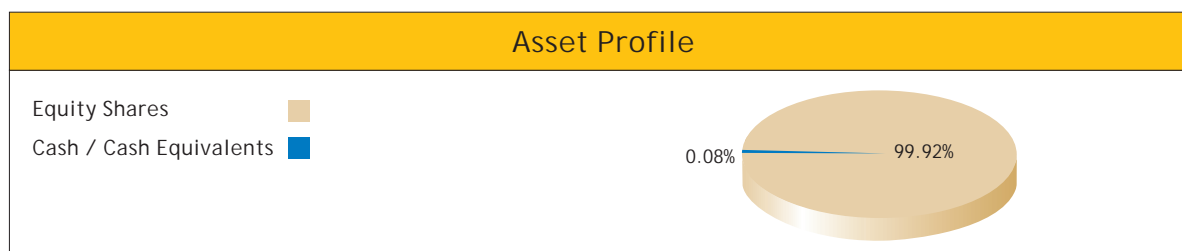
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Figures as of 30th September 2011

# 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, 22nd January 2009, (abs)
Pension Index Equity Fund	-14.81%	-17.95%	+79.92%
Nifty	-15.26%	-18.02%	+82.15%

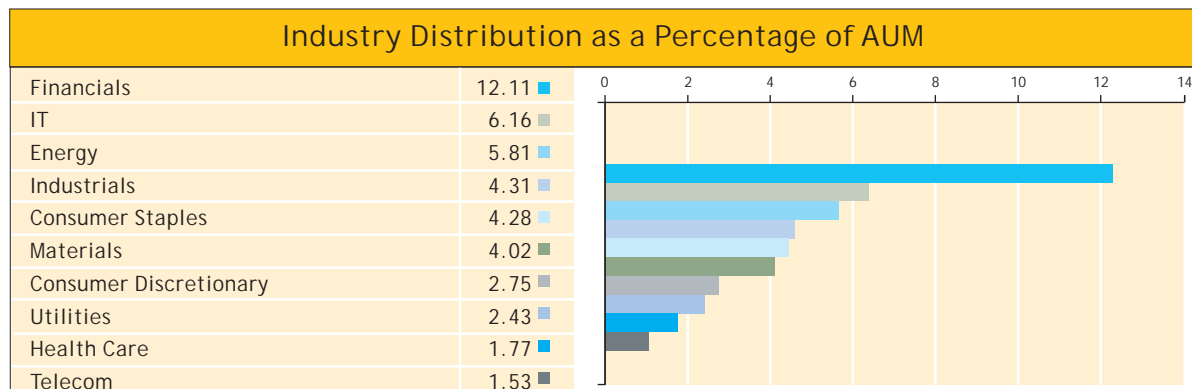
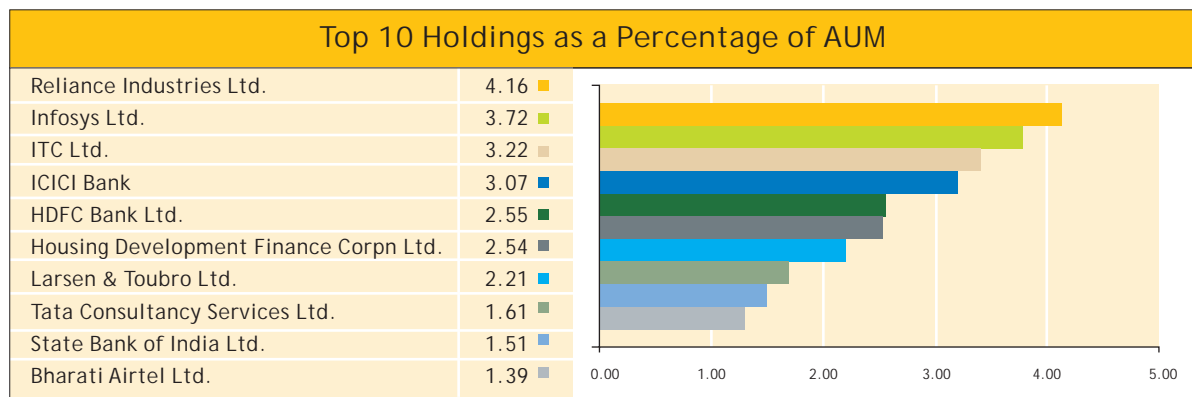
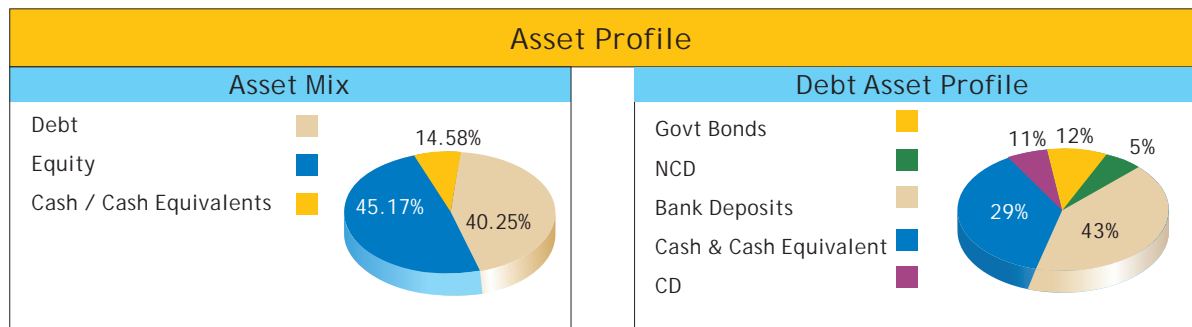
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Figures as of 30th September 2011

# 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, 22nd January 2009, (abs)
Pension Balanced Fund	-6.14%	-8.17%	+29.74%

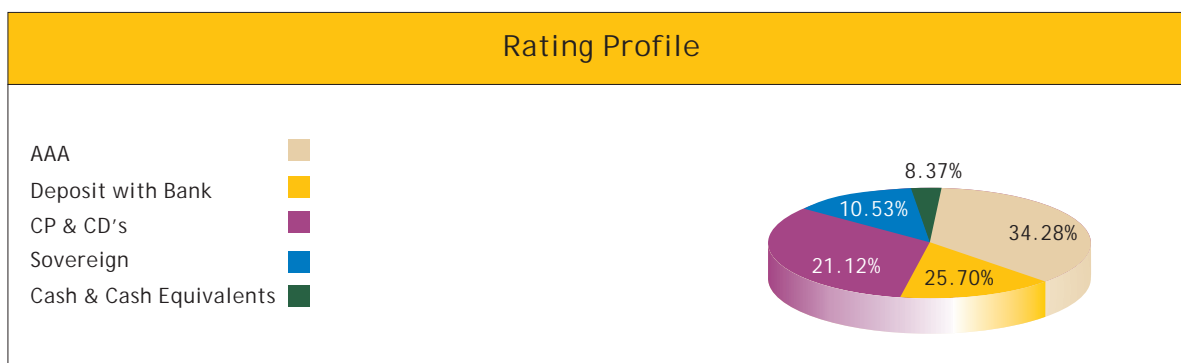
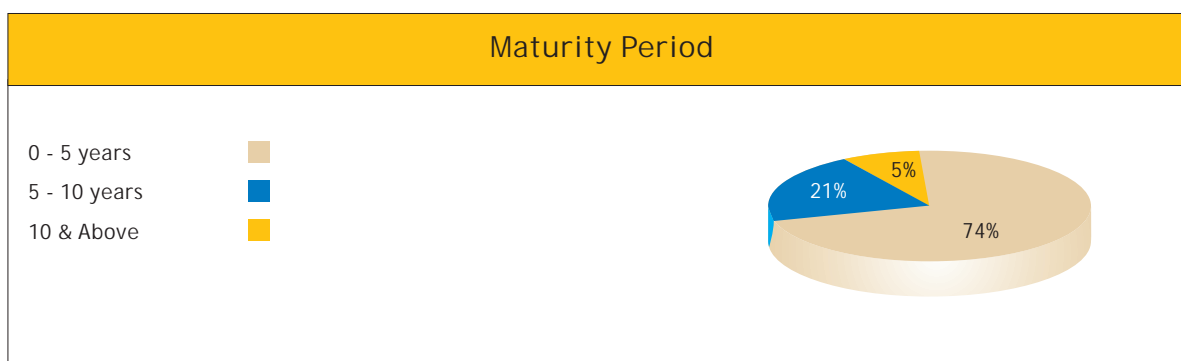
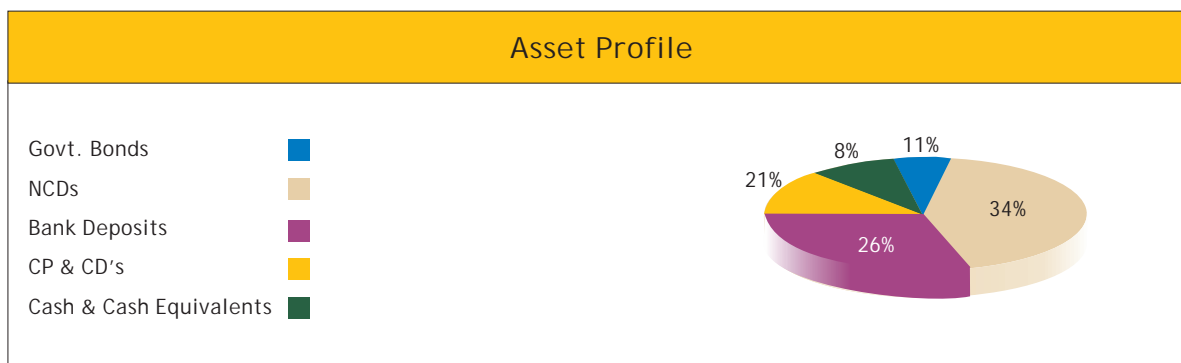
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Figures as of 30th September 2011

# 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, 19th January 2009, (ann)
Pension Debt Fund	+7.21%	+5.88%	+7.21%

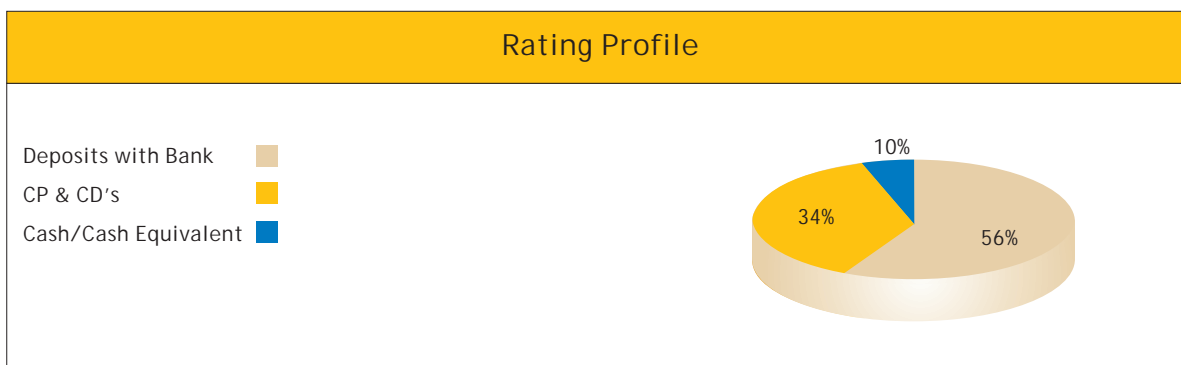
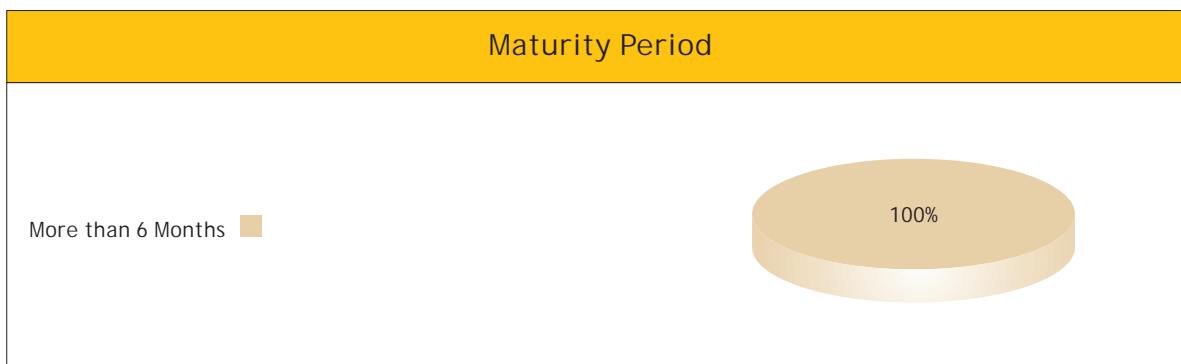
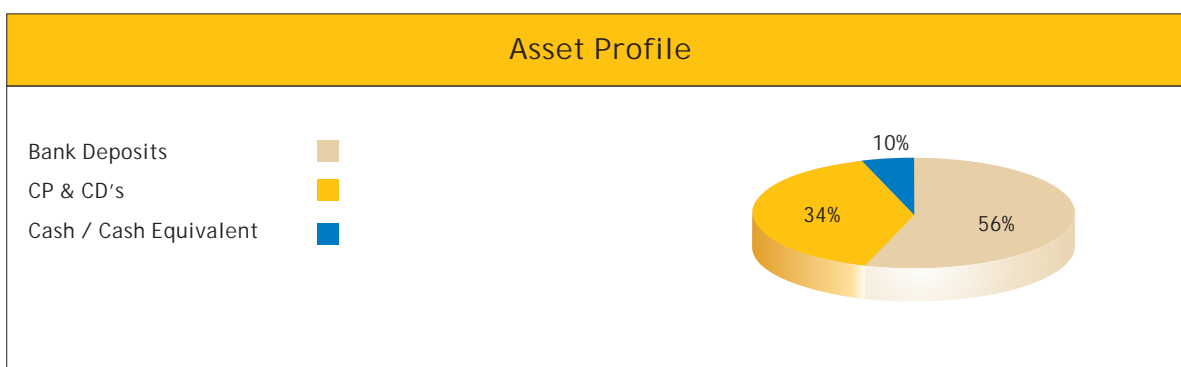
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Figures as of 30th September 2011

# 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, 20th January 2009, (ann)
Pension Secure Fund	+8.98%	+7.90%	+7.68%

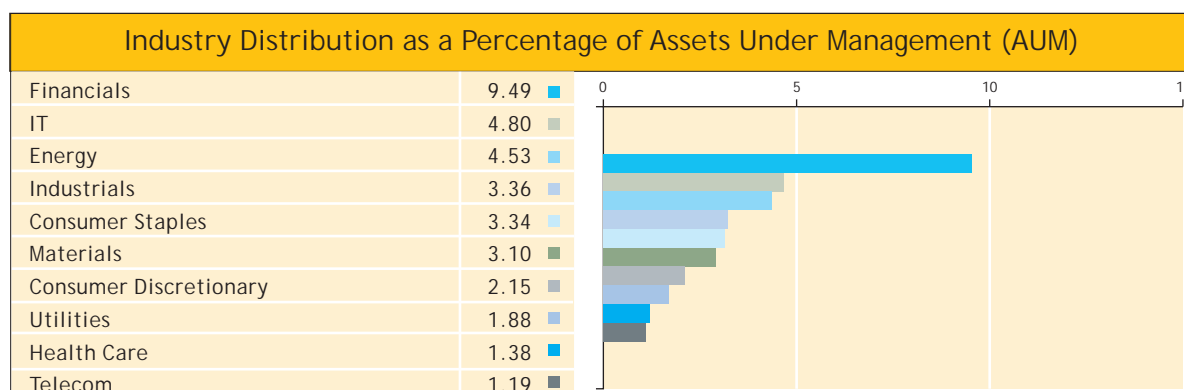
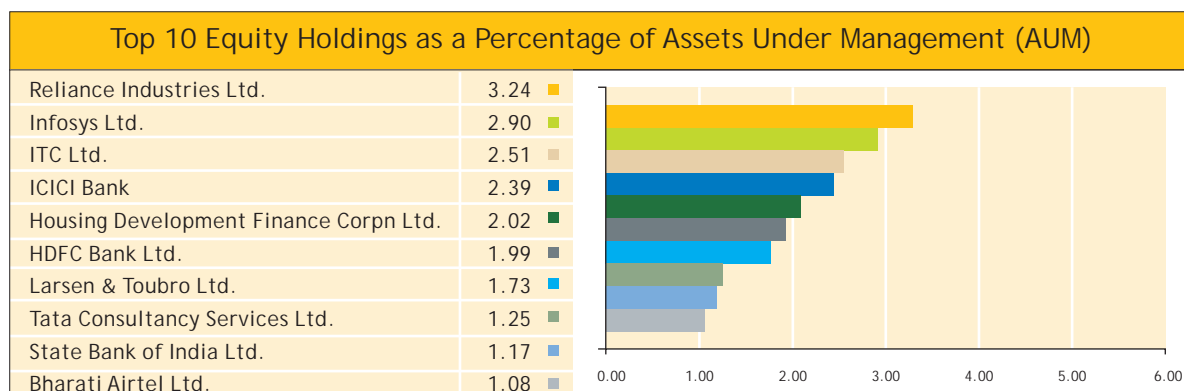
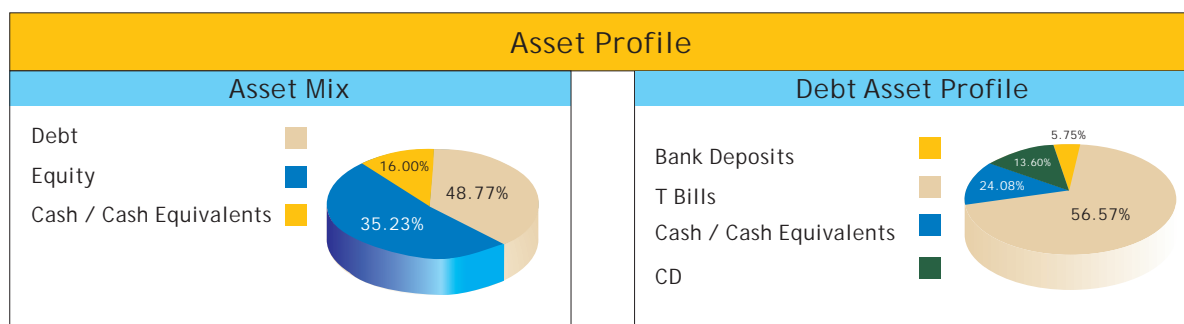
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Figures as of 30th September 2011

# 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 30th September, 2011 = Rs. 10.52 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, 8th September 2009, (abs)
NAVPF Fund	-6.86%	-9.36%	+5.25%

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Figures as of 30th September 2011

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. In an industry first, 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, The 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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