

CIO's Comments

May 2010



Mr. Sashi Krishnan
CIO, BALIC

April was indeed a cruel month – with the crisis in Greece casting its shadow over most markets, including India. Global liquidity has begun to move to less risky assets. European policy makers reacted swiftly by unveiling a USD 1 trillion loan package to stem this sovereign debt crisis and this has temporarily calmed nerves. Indian markets did not remain completely immune to the European crisis and markets have been volatile. If the problems in Europe are not sorted out there could be some FII withdrawals

from the Indian markets, a slowdown on fresh capital raising and some impact on companies with export linkages to Europe. Coupled with the European situation is the fear that China may make more aggressive moves to tighten monetary policy to slowdown its overheating economy. China has already initiated measures to cool down its property markets by raising mortgage rates and down payments. A slowdown in China will have ripple effects on growth across the world, with a serious impact on some areas like commodity prices. Trouble at the large American investment bank, Goldman Sachs, who were sued by the USSEC for fraud, further dampened sentiment.

The Indian economy, however, continues to be in reasonably good health. Output for the six core sector industries strengthened once again and grew at 7.2% in March 2010 as compared to 4.5% in the previous month. The Index of Industrial Production also showed a healthy growth of 15.1% in February 2010 – up from 0.2% for the corresponding month last year. RBI, in its monetary policy for 2011, has projected a growth of 8% for the year. However RBI has emphasized its concern on the inflation front. It says that food inflation is still elevated, commodity prices are firming up, corporates are regaining pricing power and household inflation expectation is elevated. Over and above this they expect oil and commodity prices to be high and demand side pressure to build up. In fact, inflation for the month of March 2010 was 9.9%, slightly up from the previous months 9.8%. Keeping the need to maintain the growth momentum as well as reign in inflation, RBI opted for a less aggressive stance and hiked the repo and reverse repo and CRR rates by only 25 basis points. RBI also took some concrete steps to direct funds to the infrastructure sector. All infrastructure bonds with a residual maturity of over seven years can be classified as HTM by banks, thus making it more attractive for banks to lend to this sector.

The bond markets remained weak in the month with the yield on the 10 year government bond closing at 8.06% in April, as compared to 7.83% in March. This was on account of concerns on the inflation front as well as the pressures of a large government program. On the other hand, the worsening European debt crisis has reassured bond markets that the probability of any immediate monetary tightening by the RBI has reduced significantly. The markets now believe that, given the weak global outlook, RBI will go slow on exiting its accommodative policy and not resort to an inter policy rate hikes. Liquidity is also comfortable at Rs.40,000 crores. The 10-year benchmark yield should hover in the 7.60% to 8% range.

Equity markets in April remained flat. The BSE Sensex gained 0.2% in the month to close at 17,559 and the NSE Nifty gained 0.6% to close at 5278. The best performing sectors were the consumer durables sector, with the BSE Consumer Index gaining 10.1% and the real estate sector, with the BSE Realty Index gaining 6.6%. Oil & Gas was the worst performing sector, with the Oil & Gas Index losing 2.3%. FII continued to be buyers in April, though to a lesser extent than the previous month. Domestic mutual funds were sellers in April.

The equity markets will take cheer from the fairly good corporate earnings trends. Not only has corporate performance in 2009-2010 been better than expectation, this trend is expected to carry into 2010-2011, where revenue growth can be expected to top 20% and earnings growth to top 25%. Volatility in the equity market may be heightened in the short term because of global issue and the high valuations of Indian equity but the long term uptrend remains intact.

Fund Performance

May 2010

ASSET PROFILE

Asset Class	Asset Allocation Fund	Cash Funds	Debt Funds	Equity Funds Large Cap	Equity Mid Cap	Index Funds	Ethical Funds
EQUITY SHARES	31.1%	0.0%	0.0%	89.1%	85.5%	99.8%	90.4%
CERTIFICATE OF DEPOSITS	17.3%	48.5%	20.7%	9.1%	13.2%	0.2%	0.0%
Mutual Fund Units	5.2%	0.0%	0.0%	1.7%	0.2%	0.0%	0.0%
Fixed Deposits	0.6%	51.5%	22.5%	0.0%	0.0%	0.0%	0.0%
Treasury Bills	0.4%	0.0%	0.0%	0.1%	0.0%	0.0%	9.6%
CORPORATE BONDS	36.1%	0.0%	44.9%	0.0%	0.0%	0.0%	0.0%
GOVT SECURITIES	9.2%	0.0%	7.0%	0.0%	0.0%	0.0%	0.0%
LOANS	0.0%	0.0%	4.8%	0.0%	0.0%	0.0%	0.0%
GOLD ETF	0.0%	0.0%	0.0%	0.0%	1.2%	0.0%	0.0%
WARRANTS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Grand Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

FUND PERFORMANCE

Type	FUND NAMES	Absolute Return				CAGR Return	
		1 Month	3 month	6 month	1 Year	2 Year	3 year
Asset Allocation	Asset Allocation Fund	0.7%	3.6%	6.1%	28.1%	9.6%	
Asset Allocation	Asset Allocation Pension Fund	0.8%	3.4%	6.0%	26.2%	8.8%	
	Crisil Balanced Fund Index	0.7%	5.9%	4.0%	48.3%	7.6%	
Cash Fund	Unit Gain - Cash	0.4%	1.2%	2.6%	6.4%	7.8%	8.1%
Cash Fund	Unit Gain Plus - Cash Plus	0.6%	1.7%	3.4%	8.3%	9.6%	9.8%
Cash Fund	Cash Plus Pension	0.6%	1.7%	3.5%	9.0%	9.9%	10.2%
Cash Fund	Liquid Fund	0.6%	1.6%	3.3%	7.8%	9.2%	9.4%
Cash Fund	Liquid Pension Fund	0.6%	1.6%	3.3%	8.1%	9.5%	9.6%
	Crisil Composite Liquid Index	0.3%	1.0%	1.7%	3.2%	6.0%	6.4%
DEBT FUNDS	Unit Gain - Debt	1.5%	2.3%	4.6%	5.3%	9.7%	9.3%
DEBT FUNDS	Unit Gain Plus - Debt Plus	1.5%	2.9%	5.7%	7.4%	12.1%	11.4%
DEBT FUNDS	Debt Plus Pension	1.5%	3.0%	6.2%	7.8%	12.0%	11.4%
DEBT FUNDS	Premier Debt Fund	1.3%	2.3%	5.7%	6.6%	10.8%	9.8%
DEBT FUNDS	Life Long Gain	1.0%	1.6%	3.8%	4.1%	9.0%	8.8%
DEBT FUNDS	Bond Fund	1.3%	2.6%	5.6%	7.1%	11.6%	10.8%
DEBT FUNDS	Premier Bond Fund	1.4%	2.4%	4.8%	5.6%	9.6%	8.9%
DEBT FUNDS	Bond Pension Fund	1.1%	2.5%	4.9%	6.6%	11.9%	11.4%
	Crisil Composite Bond Index	0.9%	1.6%	3.4%	3.3%	6.7%	7.1%
LARGE CAP	Unit Gain - Equity Gain	0.0%	6.3%	11.0%	53.3%	5.3%	8.2%
LARGE CAP	Unit Gain Plus - Equity Plus	0.0%	6.5%	11.8%	56.6%	6.7%	9.2%
LARGE CAP	Equity Plus Pension	1.4%	10.2%	16.2%	66.8%	12.9%	13.4%
LARGE CAP	Premier Equity Gain	1.2%	9.7%	16.0%	65.2%	9.8%	10.7%
LARGE CAP	Equity Growth Fund	1.0%	7.1%	11.5%	52.5%	1.9%	6.8%
LARGE CAP	Equity Growth Fund II	0.8%	8.9%				
LARGE CAP	Premier Equity Growth Fund	2.1%	8.7%	14.8%	59.5%	2.3%	5.6%
LARGE CAP	Equity Growth Pension Fund	1.7%	9.6%	15.4%	64.2%	5.6%	8.8%
	CNX NSE Nifty Index	0.6%	8.1%	12.0%	51.9%	1.1%	8.9%
MID CAP	Unit Gain Mid Cap	3.4%	10.2%	20.0%	90.7%	16.4%	15.9%
MID CAP	Unit Gain Mid Cap Plus	4.6%	13.4%	27.1%	119.0%	25.6%	22.8%
MID CAP	Unit Gain Mid Cap Plus Pension	4.7%	12.5%	26.7%	123.2%	28.3%	25.9%
MID CAP	Accelerator Mid cap Fund	4.8%	12.2%	26.3%	115.4%	14.8%	17.3%
MID CAP	Accelerator Mid Cap Fund II	3.7%	12.9%				
MID CAP	Accelerator Mid Cap Pension Fund	4.2%	12.5%	25.9%	124.9%	16.4%	20.0%
	NIFTY MID CAP 50 Index	5.4%	11.8%	20.4%	108.2%	1.8%	9.6%
INDEX	Unit Gain - Equity	0.4%	7.5%	10.8%	49.3%	-0.2%	7.4%
INDEX	Unit Gain Plus - Equity Index	0.5%	7.9%	11.5%	52.1%	1.2%	8.9%
INDEX	Equity Index Pension	0.5%	8.0%	11.1%	51.5%	1.3%	8.8%
INDEX	Premier Equity Fund	0.4%	7.5%	10.8%	50.1%	-0.1%	7.5%
INDEX	Equity Index Fund II	0.5%	7.8%	11.3%	51.3%	1.2%	8.7%
INDEX	Premier Nifty Index Fund	0.3%	7.4%	10.0%	48.3%	-0.8%	6.8%
INDEX	Equity Index Pension Fund II	0.4%	7.7%	11.2%	51.3%	1.1%	8.6%
	CNX NSE Nifty Index	0.6%	8.1%	12.0%	51.9%	1.1%	8.9%
Ethical Fund	Pure Equity Fund	-0.1%	6.5%	14.0%	64.6%	19.4%	19.6%
Ethical Fund	Pure Stock Fund	-0.1%	6.4%	13.1%	60.6%	17.4%	19.9%
Ethical Fund	Pure Stock Pension Fund	1.1%	10.3%	22.3%	94.9%		
	CNX NSE Nifty Index	0.6%	8.1%	12.0%	51.9%	1.1%	8.9%