

CIO's Comments

April 2010



Mr. Sashi Krishnan
CIO, BALIC

The financial year 2009-2010 ended on a high note for the equity markets. The returns in the year 2009-2010 have been the third best since 1979.

The 1-year return on the BSE Sensex is 80.54%, the 1-year return on the Nifty is 73.76% and the 1-year return on the CNX Midcap Index is 126.12%. The Sensex closed the year at 17527 points, a gain of 7819 points in the year. The Nifty closed the year at 5249 points, a gain of 2258 points in the year. The sectors that showed significant outperformance were the metals sector, with the BSE Metals Index delivering a 1-year return of 210.16%, the Auto sector, with the BSE

Auto Index delivering a 1-year return of 150.56%, the Technology sector, with the BSE IT Index delivering a 1-year return of 129.14% and the Banking sector, with the BSE Banking Index delivering a 1-year return of 128.86%. The sectors that underperformed were the Oil and Gas sector, with the BSE Oil & Gas Index delivering a 1-year return of 44.04% and the Power sector, with the BSE Power Index delivering a 1-year return of 67.06%.

The debt markets, on the other hand had a relatively bad year, with the 10 year government bond yield moving from 7% at the end of March 2009 to 7.83% at the end of March 2010.

Interestingly, however, the 10-year AAA corporate bond yields remained unwavering at 8.82% through the year, resulting in the bond spreads compressing significantly.

The growth outlook for the year continues to show improvement. The Industrial production in January 2010 was 16.7% as compared to 1% for the same period last year. On a year to date basis IIP growth is 9.6%. Manufacturing growth has strong at 17.9% and the Mining sector also saw momentum, with a growth of 14.6%. The capital goods sector showed a smart recovery and posted a growth of 56% in January 2010. Output for the six core industries also rose 4.5% in January 2010.

Indian exports have also seen sustained improvement and exports for the month of February 2010 was 34.8%, the highest level in the last 18 months. Imports also grew significantly at 66.4% mainly because of a jump in crude oil imports amounting to US\$7.6 billion. The trade deficit for April 09-Feb 10 stands at US\$95 billion but the trade deficit situation is expected to improve with higher exports and the ramp up of domestic gas production bringing down the oil import bill.

There are two areas of concern. The first is the high fiscal deficit of the government. The government is making every effort to reign in fiscal deficit and the budget managed to keep the fiscal deficit at an acceptable level of 5.5% of GDP with the net borrowings of the government capped at a significantly lower level of Rs. 3,45,010 crores. However this effort to reign in fiscal deficit could be under threat if crude oil prices rise substantially or the government falters on its divestment plans. The second big threat is inflation. The WPI for February 2010 was at 9.89%, up from 8.56% in the previous month. Increasing fuel prices as well as increasing prices of manufactured products was the main reason for the rise in inflation. Equally worrying is the fact that consumer price inflation has been at an elevated level for the last 6 months and is currently over 16%.

A direct fall out of this high inflation was the move by the Reserve Bank of India to raise interest rates. In an inter policy move, on 19th March, RBI raised both the repo and the reverse repo rate by 25 basis points, taking them to 5% and 3.5% respectively. There could not have been a clearer signal that RBI has embarked on the path of monetary tightening, driven by concerns of high inflation.

Outlook

Debt market yields can be expected to range bound in 2010-11 as there is reasonable liquidity and an expectation that inflation will trend downwards. We can expect the RBI to go in for some rate hikes and monetary tightening to moderate inflation and this may cause the bond yields to harden a bit in the beginning of the year. It is however not in the interests of the government to allow yields to harden too much as they are going to be the biggest borrowers in the market. The government has announced a borrowing of Rs.2,80,000 crores in the first half of 2010-11 which is 63% of its budgeted borrowing. The 10 year government bond yield can be expected to trade in the range of 7.75% to 8.25%.

Investors can be optimistic about equity markets in 2010-11. The domestic consumption story remains very strong and we are seeing sure signs of investment led growth returning. Strong FII inflows continue. In 2009-10 India received the highest ever FII inflow of US\$23 billion and we can expect this trend to continue in 2010-11. The long term trend of the equity markets will be strong.

Fund Performance

The fund performance of all our funds, for year ended 31st March 2010, has been excellent. We have outperformed both the benchmark and the peer group in the various fund categories.

Our best performing cash fund has delivered an out performance of over 550 basis points over the CRISIL Composite Liquid Index. Our cash funds, with a one year return of around 8.5% to 9.25%, have delivered returns that are much better than the returns available on bank fixed deposits as well as the MF Liquid Funds. Our best performing bond fund has outperformed the CRISIL Composite Bond Index by over 400 basis points with a return of 9.83%. The bond funds have delivered superior returns without taking on additional credit or interest rate risk. Our equity funds have performed extremely well in 2009-2010. Our large cap fund diversified equity funds have delivered returns that are in line or better than the Nifty Index and have also performed better than the peer group. Investors in these funds have got absolute returns in the region of 70% to 80% in the year. Investors in the mid cap funds too have got an absolute return of 100% to 135% in the year. The asset allocation fund, through a judicious mix of debt and equity delivered very good returns of 35% to investors keeping the risks relatively low.

Fund Performance

March 2010

ASSET PROFILE

Asset Class	Asset Allocation Fund	Cash Funds	Debt Funds	Equity Funds Large Cap	Equity Mid Cap	Index Funds	Ethical Funds
SHARES	29.2%	0.0%	0.0%	89.2%	90.5%	98.6%	88.0%
MONEY MARKET INSTRUMENTS	21.3%	53.9%	12.0%	10.7%	9.3%	1.0%	0.0%
MUTUAL FUND UNITS	3.3%	0.0%	0.0%	0.0%	0.2%	0.4%	0.0%
FIXED DEPOSITS	2.3%	46.1%	21.3%	0.0%	0.0%	0.0%	0.0%
TREASURY BILLS	0.2%	0.0%	0.0%	0.1%	0.0%	0.0%	12.0%
CORPORATE BONDS	37.8%	0.0%	60.6%	0.0%	0.0%	0.0%	0.0%
CENTRAL GOVERNMENT SECURITIES	5.9%	0.0%	1.1%	0.0%	0.0%	0.0%	0.0%
LOAN	0.0%	0.0%	5.1%	0.0%	0.0%	0.0%	0.0%
WARRANTS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
STATE GOVERNMENT SECURITIES	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	2.4%	1.2%	3.1%	34.7%	11.2%	
Asset Allocation	Asset Allocation Pension Fund	2.3%	1.5%	3.1%	32.4%	10.2%	
	Crisil Balanced Fund Index	4.6%	1.1%	3.3%	47.3%	15.6%	
Cash Fund	Unit Gain - Cash	0.4%	1.2%	2.6%	6.7%	7.9%	8.1%
Cash Fund	Unit Gain Plus - Cash Plus	0.5%	1.6%	3.3%	8.6%	9.6%	9.8%
Cash Fund	Cash Plus Pension	0.6%	1.7%	3.5%	9.3%	10.0%	10.3%
Cash Fund	Liquid Fund	0.5%	1.6%	3.2%	8.1%	9.2%	9.5%
Cash Fund	Liquid Pension Fund	0.6%	1.6%	3.3%	8.5%	9.5%	9.7%
	Crisil Composite Liquid Index	0.4%	0.9%	1.6%	3.7%	6.2%	6.6%
DEBT FUNDS	Unit Gain - Debt	1.0%	1.5%	3.6%	6.8%	9.1%	9.0%
DEBT FUNDS	Unit Gain Plus - Debt Plus	1.2%	2.2%	4.8%	9.2%	11.6%	11.1%
DEBT FUNDS	Debt Plus Pension	1.2%	2.5%	5.4%	9.8%	11.5%	11.2%
DEBT FUNDS	Premier Debt Fund	1.0%	1.8%	4.8%	8.7%	10.2%	9.6%
DEBT FUNDS	Life Long Gain	0.9%	1.3%	2.9%	6.2%	8.7%	8.6%
DEBT FUNDS	Bond Fund	1.1%	2.2%	5.1%	9.1%	11.1%	10.6%
DEBT FUNDS	Premier Bond Fund	0.9%	2.0%	3.8%	7.3%	8.9%	8.6%
DEBT FUNDS	Bond Pension Fund	1.1%	2.1%	4.4%	8.9%	11.6%	11.2%
	Crisil Composite Bond Index	0.8%	1.3%	2.8%	5.4%	6.4%	7.0%
LARGE CAP	Unit Gain - Equity Gain	5.6%	2.1%	4.9%	70.4%	8.9%	10.2%
LARGE CAP	Unit Gain Plus - Equity Plus	5.6%	2.4%	5.7%	73.3%	10.3%	11.2%
LARGE CAP	Equity Plus Pension	7.3%	5.0%	8.5%	84.6%	15.5%	14.9%
LARGE CAP	Premier Equity Gain	6.8%	5.0%	8.6%	81.8%	13.9%	12.3%
LARGE CAP	Equity Growth Fund	5.1%	1.4%	4.4%	69.5%	5.3%	8.2%
LARGE CAP	Premier Equity Growth Fund	6.3%	1.7%	6.2%	75.4%	5.2%	6.6%
LARGE CAP	Equity Growth Pension Fund	6.5%	4.2%	7.7%	80.6%	8.8%	9.9%
	CNX NSE Nifty Index	6.6%	0.9%	3.2%	73.8%	5.3%	11.2%
MID CAP	Unit Gain Mid Cap	7.4%	4.1%	10.3%	100.1%	17.5%	16.8%
MID CAP	Unit Gain Mid Cap Plus	9.1%	6.7%	17.9%	128.8%	25.8%	23.3%
MID CAP	Unit Gain Mid Cap Plus Pension	8.4%	6.6%	17.4%	132.9%	28.5%	26.3%
MID CAP	Accelerator Mid cap Fund	7.8%	5.5%	16.7%	124.2%	14.8%	17.5%
MID CAP	Accelerator Mid Cap Pension Fund	8.5%	6.9%	17.4%	134.1%	17.0%	20.5%
	NIFTY MID CAP 50 index	7.0%	1.9%	7.2%	131.2%	6.6%	11.8%
INDEX	Unit Gain - Equity	6.4%	0.4%	2.3%	70.2%	4.0%	9.6%
INDEX	Unit Gain Plus - Equity Index	6.6%	0.8%	3.0%	72.5%	5.4%	11.2%
INDEX	Equity Index Pension	6.6%	0.7%	2.5%	74.5%	5.5%	11.1%
INDEX	Premier Equity Fund	6.4%	0.4%	2.3%	70.4%	4.0%	9.7%
INDEX	Equity Index Fund II	6.5%	0.7%	2.8%	72.4%	5.4%	10.9%
INDEX	Premier Nifty Index Fund	6.4%	-0.2%	1.5%	69.2%	3.4%	9.0%
INDEX	Equity Index Pension Fund II	6.5%	0.7%	2.8%	72.3%	5.3%	10.9%
	CNX NSE Nifty Index	6.6%	0.9%	3.2%	73.8%	5.3%	11.2%
Ethical Fund	Pure Equity Fund	5.6%	1.2%	7.0%	80.2%	22.3%	21.3%
Ethical Fund	Pure Stock Fund	5.5%	1.2%	7.3%	75.8%	20.1%	21.6%
Ethical Fund	Pure Stock Pension Fund	8.9%	6.0%	18.8%	109.2%		
	CNX NSE Nifty Index	6.6%	0.9%	3.2%	73.8%	5.3%	11.2%