

Gratuity Fund Performance

Quarterly Fund Update - October - December, 07

In this policy, the investment risk in investment portfolio is borne by the Policy holder.

■ Fixed Income Commentary

The Market that was...

Government bond yields registered a fall during the quarter albeit major move happened in the last month of the quarter. The move was a result of relatively empty trader books, quarter ahead being a lightly supplied one and the global interest rate scenario turning benign with most central bankers in the developed worlds embarking on rate cuts. The corporate bonds witnessed a sharper rally as the comparable AAA spreads from sovereign benchmark reduced from about 160 to 170 basis points to 110 to 120 basis points during the quarter. Although CRR hike and MSS ceiling hike and issuances kept the money market yields on the higher side the longer term bond yields remained stable for most of the quarter and rallied in the last month.

Inflation: WPI inflation continued to remain on the lower band (low of 3.02% and high of 3.45%) and remained positive for the bond yields. In the coming quarter the WPI number is likely to range in 3% to 5% band as the base effect wears off and the likelihood of fuel price hike.

Liquidity: Domestic liquidity increased on strong capital flows, to manage the same the central bank hiked the MSS limit and issuance as well as hiked the CRR (Cash Reserve Ratio) by 50 basis points. As the flows moderated on account of PN note regulation, new guidelines on ECB issuance and advance tax outflows in the last month of the quarter, RBI (Reserve Bank of India) had to unwind MSS and also induce liquidity by Government security purchase.

Global interest rates: The global interest rates environment remained supportive for the bond market on account of mixed economic data, US sub prime market related worries and FOMC (Federal Open Market Committee) cutting rates aggressively to counter financial distress in the markets. Central bankers in the developed



economies looked to hold rates or cut as done by Canada and BOE (Bank of England) in UK. In contrast to this, China raised the reserve ratio successively to cool down an overheated economy fearing further inflationary pressures from large capital inflows.

Monetary Policy: In the backdrop of lower credit off take and falling inflation RBI's stance on interest rates was neutral while excess liquidity management was on the forefront (hiking the MSS limits and hike in CRR). This is because of the massive Foreign Exchange inflows and RBI's attempt to prevent sharp appreciation of INR. Liquidity management with a focus on inflation will continue to drive the monetary policy actions going ahead. RBI will continue to use all monetary tools to manage liquidity in the system.

Forex: India's Forex reserves stood at a robust \$ 278 billion. The INR remained largely in a range although it had its share of volatility on account of PN note regulation announcement. The INR has ended on an appreciating note as the central bank has become more tolerable to rising rupee in backdrop of high international oil prices and sops to exporters as well as encouraging exporters to invoice in Euros where possible.

Way Forward

A rally on the long bonds is expected in the calendar Q1 as the traders build positions for the year in a relatively lightly supplied quarter. The unwinding of MSS has resulted in the liquidity improving in the system which has helped the money market yields ease as well. The likelihood of the bonds being supported in the current back ground is there. Domestic government bonds expected to trade firm on stable domestic interest rate outlook, expectation of 50 basis points cut in US interest rates due to weak US economic data and improved liquidity position. However higher international

crude oil prices, impending government bond auction and speculations of hike in domestic fuel prices may keep sentiments cautious in the near term. Strong capital flows can result in the central bank resorting to liquidity management tools viz. MSS, CRR and Forex market intervention.

Our Strategy

Given the above, we expect the fixed income portfolios to perform in the next quarter. We shall continue to manage portfolios in a pro-active manner to achieve risk-adjusted returns for our investors.

Disclaimer: The above statements are prepared as per our analysis of the market and forecast and they do not constitute an expression of opinion or a recommendation by MetLife India for investment/dis-investment or alteration of any existing investment. These are market reports giving a fair idea to the customer on the market condition and the expected market conditions. Customers are advised to consult their own Investment Advisors before they take any decision based on the above representations. MetLife India, therefore, cannot be held liable for any losses, expenses or costs arising out of the decision taken by the customer based on the above representations.

■ Equity Market Commentary

The Market that was...

The month of December saw the NSE 50 gaining by more than 6% thus finishing the year on a strong note. During the year the NSE 50 went by a sharp 54.8%, the strongest gain in the last 4 years. At a regional level, the Indian equity markets in 2007 have significantly outperformed key Asian markets with the exception of China. Small and Mid cap stocks surged in the last quarter of the year, resulting in the BSE Mid cap Index gaining more than 76 % and the BSE Small cap index gaining more than 93%. The rupee had a sharp and largely unexpected gain against the dollar during the year. Inflows from FIIs increased significantly and crossed USD 17 Bn for the year. Apart from stock markets flows, the country witnessed a surge of foreign capital in 2007 which resulted in the RBI limiting the use of ECBs to control the high level of inflows. It was a year of high volatility for equity markets globally, mainly arising from the US sub-prime mortgage issue and its impact on the US economy.

In spite of the strong gains in the NSE 50, individual stocks posted divergent gains. **The top twelve stocks in terms of returns, in the NSE 50, gave 100% plus returns for the calendar year while the bottom twelve stocks gave negative returns.** Sectoral performance was skewed with Capital goods, power utilities, metals, oil & gas and realty sectors posting strong gains. The IT services, pharma, autos and consumers were the laggards. Our funds ended the year with a satisfactory performance. The high weightages in capital goods, natural resources, steel sectors helped performance as did the low weightages in IT services, pharma and autos.

Way Forward

The performance of the US economy in 2008, in the background of the sub-prime issue and an expected slowdown in consumption spending, will be one of the most important issues tracked by investors. A slowdown in the US can possibly impact the export

oriented economies in emerging markets. A slowdown could also potentially impact currencies, commodity prices, equities etc and lead to high level of volatility in equity markets globally. Hence, it is reasonable to expect continued volatility in the current year as well. Locally, the macro-economic outlook appears positive with expectations of GDP growth of around 8 to 8.5% for FY09. The impact of a slowing US economy on GDP growth appears limited. India would continue to be one of the fastest growing economies of the world. While it is not possible to predict inflows into the markets, it is likely that India remains on the map of foreign investors for some of the reasons mentioned above. It is also likely expected that inflows from domestic insurance and mutual funds will be stronger than last year.

Our Strategy

While the economic and market outlook appears positive from a long term point of view, the earnings growth in the broader markets, while quite robust, is slowing down as compared to the past few years. Many of the sectors which have given strong returns have got re-rated and their current valuations do reflect their long term potential. Hence, investors should tone down expectations of returns to more realistic levels. We advise investors to not get unduly swayed by volatile periods and invest with a long term view.

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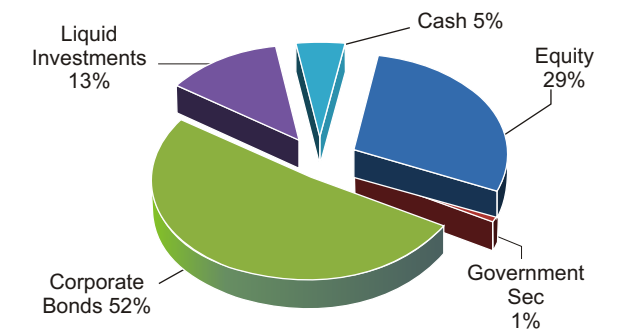


Unit-Linked Fund

Gratuity Balanced

To generate capital appreciation and current income, through a judicious mix of investments in equities and fixed income securities

Asset Allocation Pattern	
Government & Govt. Guaranteed Securities	0-100%
Equities	0-35%
Cash and Money Market	0-40%
Asset Mix	

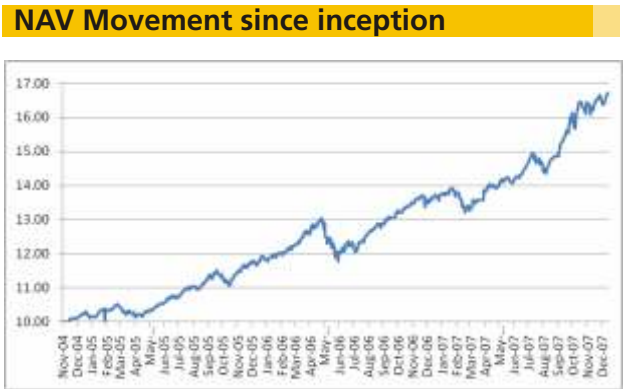


Portfolio Returns		
Returns	NAV	Benchmark
Last 1 month Return	2.4%	2.6%
Last 2 months Return	2.1%	2.2%
Latest Quarterly Return	8.6%	8.5%
Last 12 months Return		22.7%
Annualized Return since inception		21.8%
CAGR since inception		18.2%

Past performance is not indicative of the future performance

Note: Benchmark has been calculated as per the target holdings of the fund i.e. 30% Equity & 70% Debt Securities.

Security Type	Benchmark Index
Equity	S&P CNX NIFTY
Debt	CRISIL Composite Bond Fund Index



(Date of Inception:29-Nov-2004)

(Portfolio as on December 31, 2007)

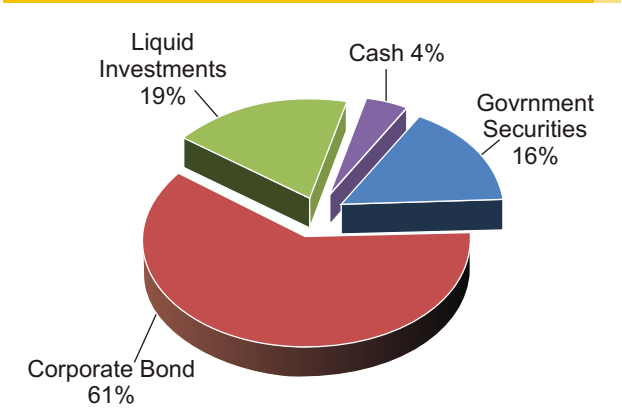
Security	Wt (%)	Rating
Debt		
RELANCE ENERGY	0.1%	AAA
Electricity Distribution	0.1%	
NTPC	2.8%	AAA
Electricity Generation	2.8%	
10.25% GOI 2021 M/D. 30/05/2021	0.2%	SOV
7.59% OIL COMP GOI BONDS 23/03/2015	0.6%	SOV
11.50% KERALA SDL (MD 29/08/2008)	0.4%	SOV
7.38% GOI 2015 (M.D. 03.09.2015)	0.1%	SOV
Government Securities	1.3%	
HDFC	17.2%	AAA
Housing Finance	17.2%	
CITIFINANCIAL CONSUMER FINANCE	2.8%	AAA
MAHINDRA & MAHINDRA FINANCIAL SERVICES	1.6%	AA+
GE MONEY FINANCIAL	1.8%	AAA
L & T FINANCIAL	2.2%	CAREAA+
NBFC	8.4%	
IL&FS	11.9%	AAA
IDFC	0.7%	AAA
ICICI BANK	1.5%	AAA
Power Finance Corporation	7.7%	AAA
NABARD	1.2%	AAA
Other Finance	23.0%	
Total Debt	51.6%	
Equity		
HINDALCO LTD	0.2%	
Aluminium	0.2%	
MARUTI SUZUKI INDIA LIMITED	0.3%	
TATA MOTORS LIMITED	0.2%	
BAJAJ AUTO LTD	0.3%	
MAHINDRA & MAHINDRA LTD	0.4%	
Automobile	1.2%	
ICICI BANK LTD	1.2%	
STATE BANK OF INDIA	1.1%	
HDFC BANK LTD	0.6%	
PUNJAB NATIONAL BANK	0.2%	
Banking Services	3.2%	
AMBUJA CEMENT LTD	0.3%	
ACC	0.2%	
Cement	0.4%	
STERLITE INDUSTRIES	0.6%	
Copper & Copper Products	0.6%	
OIL AND NATURAL GAS	2.1%	
CAIRN INDIA LTD	0.4%	
Crude Oil	2.5%	
HINDUSTAN UNILEVER LTD	0.5%	
GRASIM INDUSTRIES LTD	0.4%	
ITC LTD	0.7%	
Diversified	1.6%	
UNITECH LIMITED	0.3%	
Housing Construction	0.3%	
TATA POWERS LTD.	0.5%	
RELANCE ENERGY	0.6%	
NTPC	1.7%	
Electricity Distribution & Generation	2.7%	
SIEMENS LIMITED	0.4%	
ABB LTD	0.4%	
Electrical Equipments	0.8%	
HDFC	0.7%	
Housing Finance	0.7%	
INFOSYS TECHNOLOGIES	0.7%	
TATA CONSULTANCY LTD.	0.8%	
WIPRO	0.3%	
SATYAM COMPUTER SERVICES LIMITED	0.2%	
Information Technology	2.0%	
ZEE ENTERTAINMENT ENTERPRISE	0.2%	
DISH TV	0.0%	
Media & Broadcasting	0.2%	
SUN PHARMACEUTICALS INDUSTRIES LTD	0.2%	
DR. REDDYS LABORATORIES LTD	0.1%	
RANBAXY LABORATORIES LTD.	0.3%	
Pharmaceuticals	0.6%	
BHEL	1.2%	
Prime Movers	1.2%	
RELANCE INDUSTRIES	3.5%	
RELANCE PETROLEUM LIMITED	0.8%	
Refinery	4.4%	
SAIL	1.1%	
TATA IRON AND STEEL	0.9%	
Steel	2.0%	
BHARTI TELEVENTURES LTD	1.5%	
RELANCE COMMUNICATIONS LIMITED	1.2%	
VIDESH SANCHAR NIGAM LIMITED	0.3%	
Telecommunication	3.0%	
LARSEN & TOUBRO LTD	1.1%	
Turnkey Projects	1.1%	
GAIL (INDIA) LTD	0.4%	
Trading	0.4%	
Total Equity	29.0%	
Money Market	12.7%	
Cash & Other Liquid Assets	5.4%	
Grand Total	100.0%	

Unit-Linked Fund

Gratuity Debt

To earn regular income by investing in high quality fixed income securities

Asset Allocation Pattern	
Government & Govt. Guaranteed Securities	25-90%
Equities	0%
Cash and Money Market	0-40%
Asset Mix	

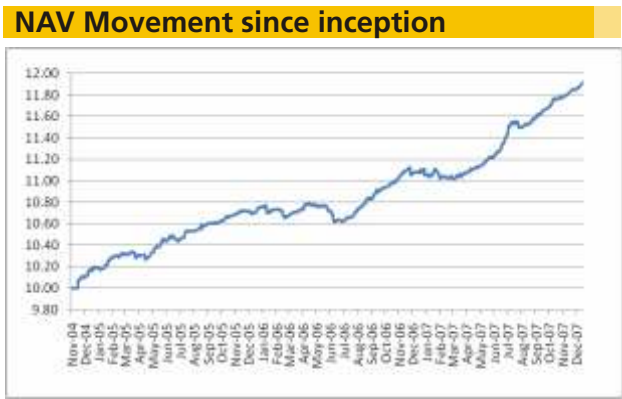


Portfolio Returns		
Returns	NAV	Benchmark
Last 1 month Return	0.8%	0.9%
Last 2 months Return	1.4%	1.4%
Latest Quarterly Return	2.5%	2.6%
Last 12 months Return		8.3%
Annualized Return since inception		6.2%
CAGR since inception		5.9%

Past performance is not indicative of the future performance

Note: Benchmark has been calculated as per the target holdings of the fund i.e. 100% Debt Securities.

Security Type	Benchmark Index
Debt	CRISIL Composite Bond Fund Index



(Date of Inception:29-Nov-2004)

(Portfolio as on December 31, 2007)

Security	Wt (%)	Rating
Debt		
7.59% GOI OIL BOND	6.9%	SOV
10.95% GOI 2011	3.6%	SOV
6.96% GOI OIL BOND	2.0%	SOV
8.13% GOI OIL BOND	3.4%	SOV
Government Securities		
POWER GRID CORPORATION	3.2%	AAA
NTPC	4.7%	AAA
PFC 9.25% 2012	1.1%	AAA
RELIANCE ENERGY	2.0%	AAA
Electricity Distribution & Generation		
HDFC	8.1%	AAA
Housing Finance		
CITIFINANCIAL CONSUMER FINANCE	8.1%	AAA
MAHINDRA & MAHINDRA FINANCIAL SERV.	3.2%	AA+
GE MONEY FINANCIAL	5.2%	AAA
L & T FINANCIAL	2.6%	CARE AA+
NABARD	14.1%	AAA
NBFC		
ICICI BANK	4.1%	AAA
Banking Services		
IDFC	3.4%	AAA
IL & FS	1.2%	AAA
Other Finance		
Total Corporate Debt		60.9%
Money Market		18.6%
Cash & Other Liquid Assets		4.4%
Grand Total		100.00%