

A Quarterly Newsletter by Reliance Nippon Life Insurance

INVESTMENT BULLETIN

January 2022



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From the Desk of CIO



The Year 2021 has been marked by “**Recovery and Resilience**” and has been a hallmark year for the Indian and global markets, with equity benchmarks galloping to record highs. The year began with renewed optimism and hope led by the Government’s rapid vaccination drive but halfway through the year was faced with new challenges caused by the second wave of Covid-19. However, as witnessed in the past, the economies and markets around the world especially India have remained resilient and emerged stronger with economic activities rapidly normalising aided by the large-scale vaccination drive and coordinated monetary and fiscal impulses by the central banks and government. Despite the Covid-19 related speed bumps that came along the way, Nifty50 Index registered a respectable performance with an annual gain of 24%. Midcap and Small cap indices did even better, gaining 40-60% for the

year. Primary market (IPO) remained buoyant with a series of new-age companies successfully tapping the market to raise funds.

In the December quarter, as inflation rates continued to rise across developed countries including USA, concerns of faster than expected taper in the asset purchase program became more pronounced, imparting volatility to financial markets. While initially the US Fed announced a taper program of USD 15bn per month, it was later increased to USD 30bn per month. The US Fed’s action combined with the fast-spreading Omicron fears resulted in FII outflow and volatility in Indian equity markets, towards the end of 2021. FIIs pulled out nearly USD 4bn from secondary equity markets during the month of December while DIIs pumped in similar amount into markets thus minimizing the overall impact on markets. Despite the outflows during the last quarter of 2021, FIIs put in around USD 4bn (including primary market flows) during the whole of 2021, making India one of the best performing markets.

Global Economy:

Globally on the macro front, the year 2021 ended with a sustained global composite Purchasing Managers Index (PMI), improving consumer sentiment as reflected in increasing home sales and auto sales globally and improved google mobility index. However, sustainability of the global economic recovery is contingent on the fast containment of rising coronavirus cases and limited restrictions impacting economic growth. Also, near term challenges persist for central banks, including Reserve Bank of India to maintain vigil on inflation and economic recovery. Since the beginning of the pandemic, central bankers acted proactively to boost growth with loose monetary policies which has resulted in rising flames of inflation. The supply side bottlenecks arising due to Covid related lockdowns are taking longer to fade away which has led majority of the economies into an elevated and sticky inflation. Going forward, global central bankers have a big task ahead of them of balancing the rising inflation without compromising on economic growth.

Domestic Economy:

In terms of domestic economic recovery, we have started seeing a bounce back in growth with the economy opening up, as reflected in our GDP growth of 8.4% for Q2FY22, with high contribution from gross fixed capital formation, which is already at pre-pandemic levels. Going further, capex recovery is likely to remain robust given an expectation of high private expenditure and government supported schemes. The economic recovery for the October-December 2021 quarter has been further reiterated in the high frequency indicators like manufacturing PMI averaging at 56.3, GST collections averaging at Rs.1.3 trillion per month, bank credit registering an average 6.8% yoy growth for the last 3 months, and domestic railway freight traffic averaging at 113.4 million tonnes for the last 3 months. As is the case with countries globally, India too is witnessing rising coronavirus cases. However, the overall vaccination coverage, with ~61% of total population having administered at least one dose and precautionary dosage in a select age group, is likely to offset the arising risks in the near-term. As 2022 begins, a raft of developments ranging from budgetary

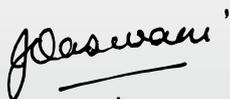
announcements to continuation of stimulus measures to monetary policy, will set the tone of growth in the domestic economy. The combination of measures by the Reserve Bank of India and the government, during the first and second wave of Covid-19, backed economic recovery and stability and helped avoid disruption; a similar approach is expected in case there is a significant surge in COVID cases in third wave.

Debt Market Outlook:

With respect to Bond Markets, during the last quarter, we witnessed domestically and globally, bond yields moving north in response to an increasing hawkish stance by central bankers. The US Fed indicated an end to its pandemic-era bond purchases by March 2022 and has paved the way for three quarter-percentage-point interest rate increases by the end of 2022. Bank of England became the first G7 central bank to hike interest rates since the onset of the pandemic. The European Central Bank (ECB) maintained its earlier communication to end the Pandemic Emergency Purchases Program (PEPP) by March 2022. Domestically, even though, the Reserve Bank of India's Monetary Policy Committee voted unanimously to keep the Repo Rate unchanged at 4% while maintaining "Dovish" narrative in December policy, the pace of absorbing excess liquidity from the system increased in the form of shorter tenure Variable Reverse Repo Rate (VRRR) and selling of government securities. With VRRR, the operational rate is closer to 4%, implying de-facto rate hike. This led to the 10-year benchmark government security trading between 6.35%-6.50% in December 2021, ending the year at 6.45%. In the near-term, the Monetary Policy Committee is expected to manoeuvre the course of policy normalisation on the back of factors such as impact of Omicron variant, global and domestic inflation trajectory and growth sustainability.

Equity Market Outlook:

From an Equity Markets standpoint, the spread of Omicron variant in conjunction with US Fed tapering, may impart some volatility in the markets in the near term. However, the bounce back in markets is likely to be sharp as India is relatively better placed among emerging markets on the economic front in terms of manageable inflation, robust growth prospects, comfortable Current Account Deficit, high forex reserves etc. India's strong economic and earnings recovery coupled with a multi-year investment cycle is expected to provide tailwinds to equity markets. A blend of healthy capital expenditure, PLI schemes and privatisation/strategic divestment of PSUs could lay a strong growth-conducive platform for sustained long term economic growth for India resulting in a positive spill-over effect for equity markets. After a strong rally in equity markets over the last 20 months, next year could be a year of consolidation in the markets. We believe that the Union Budget and corporate earning numbers will be the key factors determining the performance of equity markets in 2022. With both engines of growth – domestic consumption and investments – contributing to economic revival, the longer-term outlook for the equity markets remains quite sanguine irrespective of near-term volatility. On this backdrop, we remain constructive on equities as an asset class and advise investors to participate in the long-term potential of India by staying invested in equity markets.



Ms. Jyoti Vaswani
Chief Investment Officer



Key Fund Performance:

Funds	6 month	1 year	2 year	3 year	5 year	Since Inception
Life Equity Fund 3 Nifty 50 Index	9.15% 10.38%	23.95% 24.12%	20.98% 19.42%	15.63% 16.90%	15.20% 16.22%	11.06% 10.50%
Life Equity Fund 2 Nifty 50 Index	9.67% 10.38%	24.57% 24.12%	21.17% 19.42%	15.88% 16.90%	15.19% 16.22%	11.38% 10.42%
Make In India Fund Benchmark	9.38% 10.38%	23.08% 24.12%	20.20% 19.42%	13.05% 16.90%	12.06% 16.22%	12.18% 16.19%
Life Large Cap Equity Fund Nifty 50 Index	8.00% 10.38%	21.20% 24.12%	n.a. n.a.	n.a. n.a.	n.a. n.a.	16.64% 18.94%
Life Pure Equity Fund 2 Benchmark	13.80% 13.99%	27.53% 28.59%	25.25% 24.79%	17.64% 17.23%	14.61% 15.43%	10.52% 9.98%
Life Infrastructure Fund 2 Benchmark	12.38% 14.12%	39.69% 40.90%	26.35% 28.35%	16.49% 18.35%	13.39% 14.13%	5.41% 4.63%
Life Energy Fund 2 Benchmark	14.38% 19.27%	48.13% 50.69%	26.62% 27.32%	17.38% 17.84%	14.38% 14.07%	8.21% 7.86%
Life Midcap Fund 2 Benchmark	16.54% 12.52%	48.69% 43.22%	33.93% 33.76%	19.97% 19.48%	16.52% 18.09%	12.94% 9.76%
Life Balanced Fund 1 Composite Benchmark*	4.82% 4.15%	7.64% 7.52%	9.97% 10.58%	8.09% 10.75%	7.03% 9.37%	8.13% 8.19%
Life Money Market Fund 1 Crisil 91 day T bill Index	1.13% 1.78%	2.14% 3.45%	2.60% 3.97%	3.56% 4.82%	3.03% 5.55%	6.05% 6.86%
Life Corporate Bond Fund 1 Crisil Composite Bond Fund Index	2.68% 2.55%	3.05% 3.44%	7.08% 7.77%	6.94% 8.74%	5.22% 7.36%	7.57% 8.11%
Life Gilt Fund 1 Crisil Dynamic Gilt Index	1.99% 2.57%	2.43% 2.78%	6.32% 7.44%	7.48% 8.35%	5.89% 6.79%	7.01% 8.46%

*Composite Benchmark comprising of Crisil Composite Bond Fund Index with 80% weight and Sensex 50 with 20% weight
As on 31-Dec-2021

Note – Returns more than 1 year are CAGR returns

Fund Strategy and Outlook - Equity

Equity:

Equity markets have seen a strong rally since Covid-19 lows, induced by easy liquidity conditions and growth supportive actions by Governments and Central Banks around the world. Now, as we step into a situation where liquidity tightening and raising of interest rates by Central Banks is the new norm, the Indian equity markets may take a pause and undergo a period of consolidation. However, there are still pockets of opportunities in various sectors and themes which lead to a strategy of sector rotation and bottom-up approach of stock selection.

The theme of domestic economy recovery and global tailwind should result in sectors like Banking, Consumer Discretionary, Telecom, Cement and Technology outperform the overall market. Any correction due to the impact of the third wave of Covid-19, should be capitalized on, to add quality stocks in the portfolio, as history shows that these types of corrections are short-lived, resulting in a strong bounce back in markets.

Our investment focus remains on staying overweight on sectors where there are visible tailwinds and in companies which have a strong corporate governance model in place. Also, we look for companies which enjoy moat around their business model, have improved their balance sheet during the pandemic and have meaningful earnings visibility over the next few years. We actively monitor our portfolio positioning and constantly employ tools such as sector rotation, bottom-up approach in stock selection and finding the best proxies to play our investment thesis.

Indian Equity Market Performance

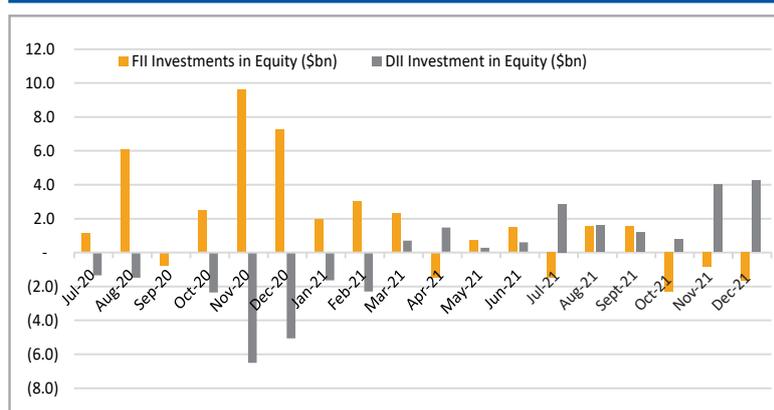
Index performance

	3 Month	6 Month	1 Year
Board Based Indices			
Sensex	-1.5	11.0	22.0
Nifty	-1.5	10.4	24.1
Defty	-2.6	9.3	20.8
BSE 100	-1.4	10.1	25.0
BSE 200	-1.1	10.5	27.6
BSE500	-0.5	10.9	30.1
Nifty Jr	-0.4	9.6	29.9
Bse Mid Cap	-1.1	10.8	39.2
Nse Mid Cap	0.2	12.9	46.1
BSE Small Cap	4.9	16.7	62.8

Sectoral Indian Indices

Auto	4.0	4.4	19.2
Bankex	-5.4	2.7	12.6
Capital Goods	10.7	25.3	53.4
Consumer Durables	8.3	25.8	47.3
FMCG	-7.3	2.0	9.3
Health Care	0.4	2.4	20.9
IT	10.0	25.6	56.1
Metal	-4.6	3.1	65.9
Oil & Gas	-4.3	8.2	24.3
Power	8.8	26.4	68.8
PSU (State Owned Enterprises)	-3.9	4.7	40.8
Realty	-6.4	40.2	55.0

Institutional flows



Source:
NSE, BSE, Data as on 31st December, 2021

■ Fund Strategy and Outlook - Debt ■

■ Debt Fund Strategy and Positioning:

Reserve Bank of India's Monetary Policy Committee voted unanimously to keep the Repo Rate unchanged at 4% while maintaining "Dovish" narrative in December policy, the pace of absorbing excess liquidity from the system speeded in form of shorter tenure Variable Reverse Repo Rate (VRRR) and selling of government securities. With VRRR, the operational rate is closer to 4%, implying de-facto rate hike.

The noticeable improvement in government finances this fiscal, on the back of higher tax collections, is indeed a macro positive from the bond market perspective. However, it would be interesting to watch how the RBI manages liquidity normalisation, given the faster spread of the new COVID-19 variant Omicron. Going forward, policy normalization is likely in India in the year 2022.

Our portfolios are positioned to benefit from rich spreads offered in the belly of the Gsec curve. We are maintaining underweight on corporate bonds sighting lower spreads.

We continue to hold good quality Government securities and AAA corporate bonds. We maintain taking no exposure in lower than AAA issuers.

■ India's Debt Market Performance:

Debt market indicators				
Money market (%)				
		Change (Q-o-Q)		Change (Q-o-Q)
Tenure	CD	(bps)	CP	(bps)
3M	3.63	10	3.66	10
6M	4.13	40	4.17	51
12M	4.43	45	4.60	44

Note – Q-o-Q change is over Sep 2021 to Dec 2021

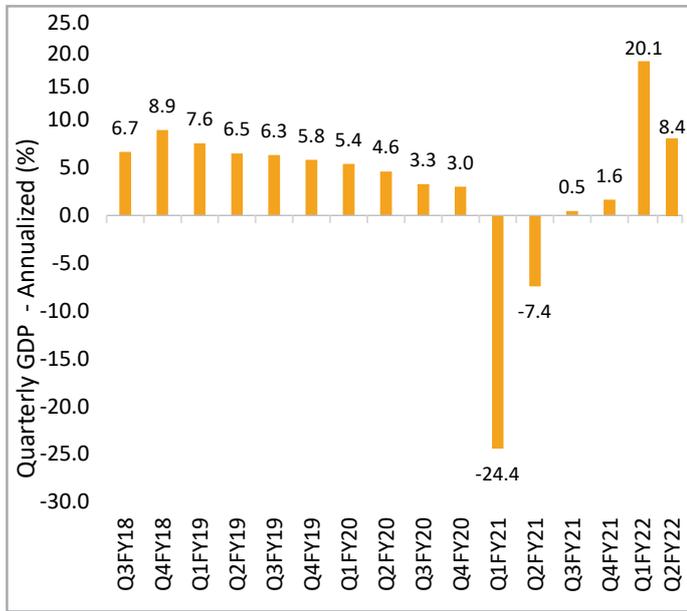
Data Source – Reuters, Bloomberg, CRISIL

Debt market indicators				
Bond market (%)				
		Change (Q-o-Q)		Change (Q-o-Q)
Tenure	G-Sec	(bps)	AAA CB	(bps)
3Y	5.30	36	5.60	30
5Y	5.79	13	6.15	15
10Y	6.45	23	6.90	11

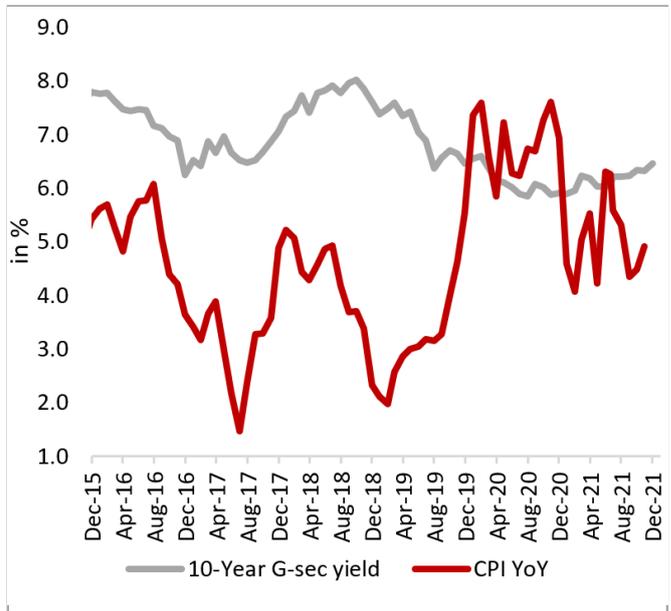
Key Economic Indicators

Other market and economic indicators:

RBI estimate of FY 22 GDP is at 9.5%

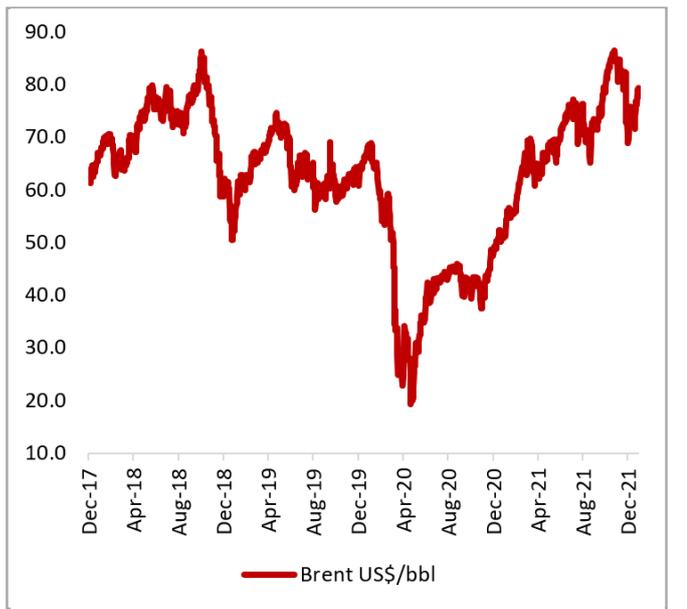


Inflationary pressures continue on account of supply side issues and sticky core inflation

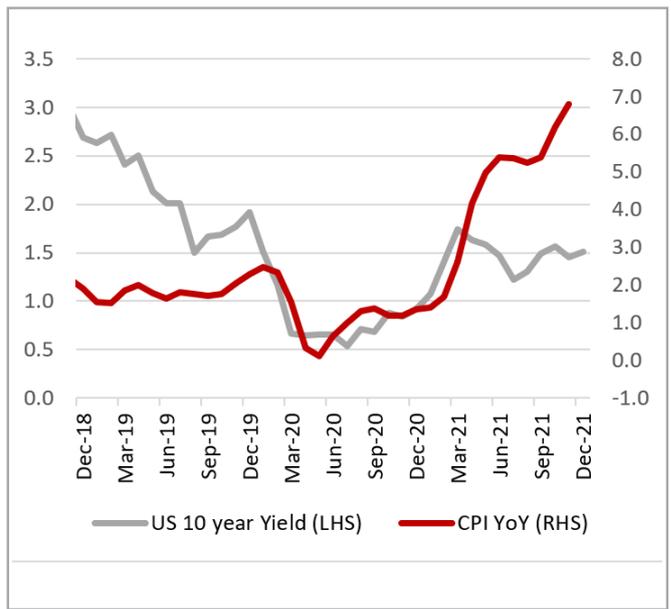


Source: Bloomberg, MOSPI, Reuters

Brent Crude Oil prices remained volatile between USD 68-86 per barrel in October to December led by uncertainty from new mutant and its impact on demand and supply metrics



Supply side bottlenecks persisting longer than expected led to spike in US inflation to 6.8% y/y in November 2021



Source: Reuters

Key Economic Indicators

Other market and economic indicators:

Economic indicators heat map								
Indicators	Nov-21	Oct-21	Sep-21	Aug-21	Jul-21	Jun-21	May-21	Apr-21
Industrial Sector								
Manufacturing PMI	57.6	55.9	53.7	52.3	55.3	48.1	50.8	55.5
8 Core Industries (YoY)	3.1%	8.4%	4.5%	12.1%	9.9%	9.3%	16.4%	62.6%
Rail Freight Traffic (Loading in million tonnes)	116.8	117.4	106.0	110.6	112.7	112.7	114.8	111.5
Rail Passenger Traffic (in million)	377.0	344.4	294.5	256.0	191.9	142.1	86.1	211.7
Consumer Economy								
Passenger Vehicle Sales in thousands	215.6	226.4	160.1	232.2	264.4	231.6	88.0	261.6
Two Wheeler Sales in thousands	1050.6	1541.6	1528.5	1331.4	1253.9	1055.8	352.7	995.1
Tractor Sales in thousands	74.6	127.8	105.2	65.5	76.4	120.4	63.3	72.3
Domestic Air Passenger Traffic in thousands	10516.0	8985.0	7066.0	6701.0	5007.0	3113.0	2115.0	5725.0
Inflation								
CPI inflation, % y/y	4.9%	4.5%	4.4%	5.3%	5.6%	6.3%	6.3%	4.2%
WPI inflation, % y/y	14.2%	12.5%	10.7%	11.4%	11.2%	12.1%	12.9%	10.5%
Deficit Statistic								
Trade Balance, USD billion	-22.9	-19.9	-22.6	-13.8	-11.0	-9.4	-6.3	-15.1
Fiscal Deficit (₹ Billion)	1485.9	201.8	588.4	1,468.7	469.0	1,510.7	444.8	787.0
GST								
GST collections (₹ Billion)	1315.3	1301.3	1,170.1	1,120.2	1,163.9	928.5	1,027.1	1,413.8

Source: Bloomberg, MOSPI, Reuters, IHS Markit, PIB, CEIC, SIAM, TMA, DGCA, CGA

Key Economic Indicators

- Inflation even though remained within the target band of 4%-6%; the inflationary pressures are expected in the near term due to an unfavourable base, supply side issues and sticky and elevated core inflation which has remained above 6% for the past many months.
- Rail Passenger Traffic and Domestic Air Passenger Traffic improved substantially in the last 3 months; however, the same is likely to show moderation in the coming 2-3 months, given the high transmissibility rate of the new COVID-19 mutant.
- GST collections have sustained at around Rs.1.3 trillion, reflecting recovery in consumer sentiment and spending.
- Overall, the signs of recovery are visible in certain economic indicators and RBI estimates GDP growth to be 9.5% in FY 22 and 7.8% in FY 23, subject to a lower impact of the new COVID-19 mutant on economic recovery.

SFIN	Fund Name
ULIF04201/01/10LEQUITYF03121	Life Equity Fund 3
ULIF07101/12/19LLARGCAPEQ121	Life Large Cap Equity Fund
ULIF02510/06/08LEQUITYF02121	Life Equity Fund 2
ULIF04601/01/10LPUEQUITY02121	Life Pure Equity Fund 2
ULIF04401/01/10LINFRAST02121	Life Infrastructure Fund 2
ULIF04101/01/10LENERGYF02121	Life Energy Fund 2
ULIF04501/01/10LMIDCAPF02121	Life Midcap Fund 2
ULIF06924/03/15LMAKEINDIA121	Make In India Fund
ULIF00128/07/04LBALANCE01121	Life Balanced Fund 1
ULIF02910/06/08LMONMRKT01121	Life Money Market Fund 1
ULIF02310/06/08LCORBOND01121	Life Corporate Bond Fund 1
ULIF02610/06/08LGILTFUN01121	Life Gilt Fund 1

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The logo for Reliance Nippon Life Insurance. It features the word "RELIANCE" in white, uppercase letters on a blue rectangular background. A small red triangle is positioned below the letter "I".

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