Reliance Life Insurance

Anil Dhirubhai Ambani Group

A Reliance Capital Company

November 2008

the analyst

monthly fund factsheet

group products

investment philosophy

Reliance Life Insurance seeks consistent and superior long-term returns with a well-defined and disciplined investment approach symbolizing integrity and transparency to benefit all stakeholders.

Economy Indicators	31st Oct 08	30th Sept 08	Change
Rs./$	49.45	46.97	-5.28%
WPI Inflation	238.30*	241.10	10.68%y-o-y*
Forex Reserves ($ bn)	258.42	291.97	-33.56bn$
Oil Price ($ per Barrel)	60.40	93.92	-33.52$
Gold (Rs. per 10gm)	11900	13570	Rs. -1670

* As of 30th October 2008

Investments	31st Oct 08	30th Sept 08	Absolute Change
FIIs (Rs Crs)	-15347.30	-8278.10	-7069.20
Mfs (Rs Crs)	1431.60	2292.20	-860.60

Indices	31st Oct 08	30th Sept 08	% Change
BSE Sensex	9788.06	12860.43	-23.89
S&P CNX Nifty	2885.60	3921.20	-26.41
CNX Mid Cap	3506.40	4890.70	-28.30
BSE Small Cap	3765.11	5577.47	-32.49

Global Indices	31st Oct 08	30th Sept 08	% Change
Dow Jones	9325.01	10850.66	-14.06
FISE 100	4377.34	4902.45	-10.71
Hang Seng	13968.67	18016.21	-22.47
Nikkei	8576.98	11259.86	-23.83

Sectoral Indices	31st Oct 08	30th Sept 08	% Change
CNX Infrastructure	2279.63	3183.45	-28.39
CNX Energy	5538.89	7803.79	-29.02
BSE Capital Goods	7017.61	10581.13	-33.68
BSE Bankex	5011.24	6478.85	-22.65
BSE Oil & Gas	6195.62	9039.28	-31.46
BSE IT	2861.94	3095.08	-7.53

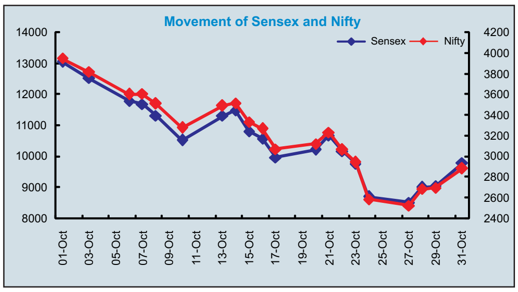
Fixed Income Indicators	31st Oct 08	30th Sept 08	Absolute Change
NSE Mibor	20.30	14.57	5.73
91 Day T-Bill	7.05	8.48	-1.43
182 Day T-Bill	7.10	8.55	-1.45
1 year GOI Benchmark	7.42	8.89	-1.47
5 Year GOI Benchmark	7.55	8.70	-1.15
5 Year Corp Bond Benchmark	11.68	11.06	0.62
10 Year GOI Benchmark	7.46	8.66	-1.20
10 Year US Benchmark	3.97	3.82	0.15

fund snapshot

asset allocation	funds	gross return (CAGR*) (%) as on October 31, 2008 last 1 year	last 2 years	last 3 years	since inception	date of inception
100% equity	ULIP Equity	-49.52	N.A.	N.A.	-49.52	October, 2007
40% equity, 60% debt	ULIP Growth	-22.19%	-3.19%	5.57%	7.98%	August, 2004
20% equity, 80% debt	ULIP Balanced	-8.28%	2.53%	6.62%	9.07%	February, 2003
100% bond instruments	ULIP Corporate Bond	6.21%	N.A.	N.A.	6.21%	October, 2007
100% debt instrument	ULIP Pure Debt	N.A.	N.A.	N.A.	N.A.	October, 2008
100% govt. securities	ULIP Gilt	8.44%	N.A.	N.A.	8.44%	October, 2007
100% money market instruments	ULIP Money Market	N.A.	N.A.	N.A.	N.A.	November, 2007
100% money market instruments	ULIP Capital Secure	9.92%	8.93%	8.05%	6.66%	February, 2003

*CAGR: Compounded Annual Growth Rate

equity market update - Oct 2008



Equity Market

Amidst widespread losses across regions in October, Sensex fell to a 35-month low, falling below 8000 briefly, before ending 23.89% lower at 9788 points. Nifty closed the month at 2885.60. Among sectors, realty and metals were the biggest losers, down 43.62% and 40.31%, respectively. IT was down by 7.53% and was among the sectors that saw the lowest declines.

The Q2 earnings painted a mixed picture, but overall net earnings appeared to have been affected by the depreciating rupee, lack of order inflow, higher input costs and higher interest rates. Global pressures such as recession and financial market crisis took a toll on the market and caused pain to other emerging market indices as well.

FIIs pulled out $3.8 bn from Indian equities in October itself, taking the year's tally to $12.9 bn. With no relief seen from investment outflow, SEBI announced removal of restrictions on P-Notes and hike in FII investment limit in debt. Further, RBI provided liquidity by cutting key policy rates ahead of the credit and monetary policy review. This has reduced liquidity pressure but banks are still reluctant to land and sitting on huge amounts of cash.

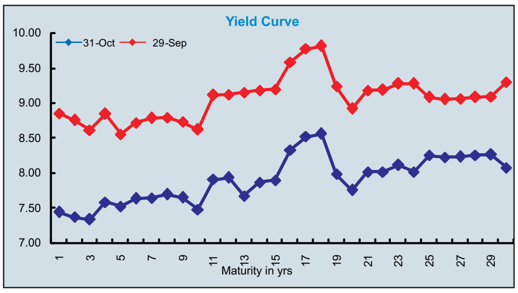
Meanwhile, the absence of more rate cuts in the Credit & Monetary policy review triggered selling in stocks before market sentiments improved late in the month across the globe. The signal of improving conditions was marked by easing lending rates like the Libor. A domestic factor that offered comforting support was the easing of the WPI inflation rate.

On November 1, RBI announced another round of hefty rate cuts following the slew of rate cuts by other central banks. RBI announced a fresh 100 bps cut in CRR and 50 bps cut in LAF repo and 1% cut in SLR.

Outlook:

Going ahead, the equity market will take positive cues from fall in inflation and crude oil prices. But concerns about weak corporate results will continue to hurt market sentiments. The market will also keenly watch the global liquidity situation and the measures taken by the central bank to tackle this tight situation. To conclude, market sentiments will continue to remain fragile due to global recession worries and heavy selling by foreign funds.

debt market update - Oct 2008



Debt Market

The 10 year benchmark G-sec yield curve fell sharply down from 8.66% to 7.46% as RBI slashed key rates and eased monetary conditions. Apart from RBI measures, policy action of global central banks also rubbed off positively on domestic bonds though the easing on banks' SLR requirements from 25% to 24% (w.e.f Nov 8)acted as a negative as banks could liquidate bond holdings to that extent.

The WPI inflation rate which dropped to 10.68% y-o-y from close to 12%, provided firm support to bonds. At the shorter end of the curve, 364 day Treasury bill cut-off yields also fell sharply by 213 bps. Five-year AAA corporate bond yield rose to 11.68% from 11.06%, offering a record high credit spread of over 400 bps. Commercial paper and Certificate of Deposit rates remained sticky at higher levels indicating the difficulty faced by borrowers.

Key domestic indicators like industrial production and infrastructure output continued to display the impact of monetary tightening over the last few quarters while the RBI also revised growth forecast lower to a range of 7.5%-8% in its October 2008 Credit Policy, acknowledging the likely spill over impact from the global crisis. However, prospects of higher than budgeted fiscal deficit weighed on sentiment.

As liquidity conditions worsened again, the RBI on Nov 1 announced a fresh LAF repo rate cut by 50 bps to 7.5% (w.e.f Nov.3) and CRR by 100 bps that would take effect in two equal steps - one from the fortnight beginning October 25 and other from November 8.

Outlook:

With inflation coming down to below 11% and RBI having cut key rates aggressively, we expect gilt yields to soften in the coming month. Short term CD/CP yields may fall due to liquidity infusion from CRR cuts. However G sec auctions, dollar demand leading to liquidity tightness and rise in crude oil prices are key risks to the outlook. We expect the ten yr benchmark G sec yield to be in the range of 7.25% to 8.00%.

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ULIP Equity Fund

details as on October 31, 2008

fund performance

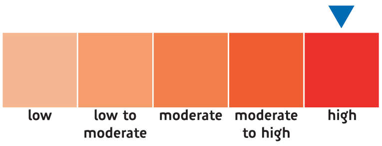
period	gross fund return	benchmark return	fund standard deviation	benchmark standard deviation	fund sharpe ratio	benchmark sharpe ratio
last 1 year	-49.52%	-51.09%	37.63%	38.24%	-1.45	-1.47
since inception (CAGR)	-49.52%	-51.09%	37.63%	38.24%	-1.45	-1.47
date of inception		october, 2007				

*CAGR: Compounded Annual Growth Rate

fund objective

Provide high real rate of return in the long-term through high exposure to equity investments, while recognizing that there is significant probability of negative returns in the short-term. The risk appetite is 'high'.

fund risk profile



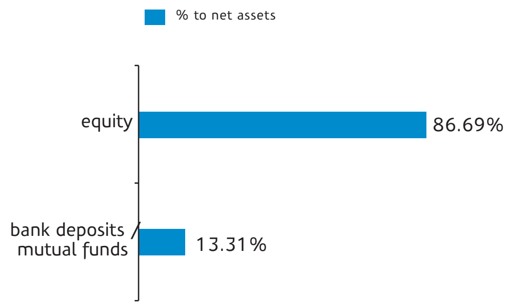
products

Reliance Group Leave Encashment (GLE) - Equity Fund Option

portfolio

security	% to net assets	1-yr beta
equity		
OIL REFINERIES	14.80	
RELIANCE INDUSTRIES LIMITED	7.18	1.14
OIL & NATURAL GAS CORPORATION LTD.	4.65	0.91
HINDUSTAN PETROLEUM CORPORATION LTD FV10	0.96	0.95
BHARAT PETROLEUM CORP LTD	0.89	0.69
RELIANCE PETROLEUM LIMITED	0.71	1.15
INDIAN OIL CORPORATION LIMITED	0.42	1.03
BANKING & FINANCE	13.62	
STATE BANK OF INDIA	4.70	1.02
HDFC BANK	2.39	1.04
HOUSING DEVELOPMENT FINANCE CORPORATION	2.04	1.16
ICICI BANK LTD	1.69	1.48
PUNJAB NATIONAL BANK	1.30	1.10
BANK OF BARODA	0.75	0.90
AXIS BANK LIMITED	0.60	1.13
BAJAJ FINSERV LIMITED	0.15	1.94
CAP GOODS / ENGINEERING	9.76	
LARSEN & TOUBRO LIMITED FV 2	3.13	1.04
BHARAT HEAVY ELECTRICALS LIMITED	2.93	1.04
CUMMINS INDIA LIMITED FV 2	1.16	0.55
ALSTOM PROJECTS INDIA LTD.	0.91	1.02
ABB LIMITED FV 2	0.91	0.89
SIEMENS LTD FV 2	0.71	0.93
IT	9.51	
INFOSYS TECHNOLOGIES LIMITED FV 5	5.00	0.73
TATA CONSULTANCY SERVICES LIMITED	3.09	0.92
WIPRO LTD.	1.42	0.95
FMCG	6.71	
HINDUSTAN UNILEVER LIMITED FV 1	3.93	0.50
ITC LTD FACE VALUE INR 1	2.78	0.64
POWER	6.00	
TATA POWER FV 10	2.69	1.14
NTPC LIMITED	1.60	1.00
AREVA T & D INDIA LIMITED	1.38	0.96
SUZLON ENERGY LIMITED	0.33	1.39
TELECOM	5.72	
BHARTI AIRTEL LIMITED	5.72	0.83
PHARMACEUTICALS	5.16	
DIVIS LABORATORIES LTD	2.82	0.90
CIPLA LIMITED FV 2	1.41	0.55
SUN PHARMACEUTICALS INDUSTRIES LTD FV 5	0.93	0.37
METALS	4.20	
STEEL AUTHORITY OF INDIA LTD	1.62	1.23
TATA STEEL LIMITED	1.54	1.21
STERLITE INDUSTRIES LTD FV 2	0.59	1.11
HINDALCO INDUSTRIES LTD FV INR 1	0.45	1.25
AUTOMOBILES	4.17	
MARUTI SUZUKI INDIA LTD.	2.83	0.68
BAJAJ AUTO LIMITED NEW	0.96	0.70
TATA MOTORS LTD.	0.38	0.89
GAS	1.92	
GAIL (INDIA) LIMITED	1.92	0.89
OIL EXPLORATION	1.36	
CAIRN INDIA LIMITED	1.36	1.02
FERTILIZERS	1.05	
GUJARAT NARMADA VALLEY FERTILISERS CO. LTD.	0.65	1.23
GUJARAT STATE FERTILIZERS & CHEMICALS LTD.	0.37	0.93
UNITED PHOSPHORUS LTD	0.03	0.65
CEMENT & CEMENT PRODUCTS	0.80	
GRASIM INDUSTRIES LTD FV 10	0.80	0.72
HOTELS	0.73	
INDIAN HOTELS CO. LTD.	0.73	0.73
AVIATION	0.42	
KINGFISHER AIRLINES LIMITED	0.42	1.49
AUTO ANCILLARY	0.38	
AUTOMATIVE AXLES	0.38	0.62
MEDIA	0.30	
TELEVISION EIGHTEEN INDIA LTD. FV 5	0.30	0.80
CONSTRUCTION	0.08	
GAMMON INDIA LIMITED FACE VALUE 2	0.08	0.85
total equity	**86.69**	
total bank deposits/mutual funds	**13.31**	
total net assets	**100.00**	

asset allocation



fund characteristics as on Oct 31, 2008

Fund Beta 0.93

NAV as on Oct 31, 2008

Reliance Group Leave Encashment (GLE) - Equity Fund Option: Rs. 4.9078

fund manager's report

The month of October saw Sensex falling below 10000.The concerns about slowing earnings growth for Indian corporates and a possible recession in developed markets continues to weigh on the sentiments. Looking at these uncertainties in the domestic and global markets, the holding in equities was kept at 86.69%.

target asset allocation

Equity: 100%

benchmark construction

S&P CNX Nifty: 100%

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ULIP Growth Fund

details as on October 31, 2008

fund objective

Provide investment returns that exceed the rate of inflation in the long-term while maintaining moderate probability of negative returns in the short-term. The risk appetite is defined as 'moderate'.

fund risk profile

low	low to moderate	moderate	moderate to high	high
		▼		

products

Reliance Group Gratuity (GGP) -Growth Fund Option:

Reliance Group Superannuation (GSP) - Growth Fund Option:

fund manager's report

The month of October saw Sensex falling below 10000.The concerns about slowing earnings growth for Indian corporates and a possible recession in developed markets continues to weigh on the sentiments. Looking at these uncertainties in the domestic and global markets the holding in equities was kept at 34.96%.

The allocation to corporate bonds was increased to 42.46% from 38.08% in Sept in order to take advantage of higher spreads in corporate bonds. The G-sec allocation was also increased to 7.00% from 5.98% as we increased duration. The allocation to short term bank deposits and CDs/CPs was reduced to 15.58% from 19.46% in Sept

target asset allocation

Debt.:	60%
Equity:	40%

benchmark construction

CRISIL ST Bond Index:	60%
CNX Nifty:	40%

fund performance

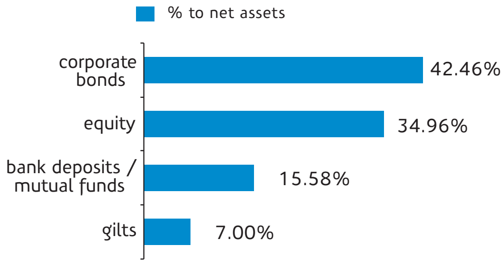
period	gross fund return	benchmark return	fund standard deviation	benchmark standard deviation	fund sharpe ratio	benchmark sharpe ratio
last 1 year	-22.19%	-20.22%	15.92%	15.43%	-1.71	-1.63
last 2 years (CAGR)	-3.19%	0.28%	14.24%	14.28%	-0.58	-0.33
last 3 years (CAGR)	5.57%	7.77%	13.05%	12.86%	0.04	0.22
since inception (CAGR)	7.98%	9.63%	11.66%	11.52%	0.26	0.40
date of inception			august, 2004			

*CAGR: Compounded Annual Growth Rate

portfolio

security	% to net assets	rating/ 1-yr beta
corporate bonds		
9.68% IRFC 03-07-2010	4.78	AAA
8.25% IDBI OMNI BOND SER III 26-05-2011	4.13	AA+
11.15% POWER FINANCE CORP LTD 15-09-2011	3.69	AAA
9.58% EXIM BANK OF INDIA 04-09-2010	3.64	AAA
9.50% NABARD NPS BONDS SER IX I 15-10-2012	3.42	AAA
10.35% HDFC LTD 16-05-2017	3.28	AAA
8.95% HDFC LTD 29-10-2010	3.19	AAA
7.15% IND OIL BOND 10-06-2012	2.74	AAA
10.90% RECL LTD 14-08-2013	2.18	AAA
9.35% HDFC LTD 09-11-2009	2.17	AAA
7.39% POWER GRID CORP 22-09-2011	2.15	AAA
9.80% TATA STEEL LTD 07-05-2011	2.13	AAA
9.50% INDIAN HOTEL CO LTD 28-02-2012	2.10	AA+
9.90% TATA SONS LTD 20-05-2011	1.43	AAA
9.05% EXIM BANK LTD 06-11-2010	1.42	AAA
total corporate bonds	**42.46**	
gilts		SOVEREIGN
7.44% GOI SPL OIL BOND 2012 23-03-2012	3.08	
6.96% GOI OIL COMPANIES SPLBD 30-03-2009	1.48	
5.48% GOI 12-06-2009	1.47	
5.87% GOI 02-01-2010	0.95	
8.35% GOI 2022 14-05-2022)	0.02	
total gilts	**7.00**	
equity		
OIL REFINERIES	6.11	
RELIANCE INDUSTRIES LIMITED	2.94	1.14
OIL & NATURAL GAS CORPORATION LTD.	1.88	0.91
RELIANCE PETROLEUM LIMITED	0.54	1.15
BHARAT PETROLEUM CORP LTD	0.49	0.69
HINDUSTAN PETROLEUM CORPORATION LTD FV10	0.26	0.95
BANKING & FINANCE	5.64	
STATE BANK OF INDIA	1.77	1.02
HOUSING DEVELOPMENT FINANCE CORPORATION	1.05	1.16
ICICI BANK LTD	0.77	1.48
HDFC BANK	0.65	1.04
BANK OF BARODA	0.51	0.90
AXIS BANK LIMITED	0.51	1.13
FEDRAL BANK LTD	0.38	0.75
IT	3.75	
INFOSYS TECHNOLOGIES LIMITED FV 5	1.85	0.73
TATA CONSULTANCY SERVICES LIMITED	1.30	0.92
WIPRO LTD.	0.33	0.95
SATYAM COMPUTERS LTD - FV 2	0.26	0.77
CAP GOODS / ENGINEERING	3.71	
BHARAT HEAVY ELECTRICALS LIMITED	1.26	1.04
LARSEN & TOUBRO LIMITED FV 2	1.24	1.04
CUMMINS INDIA LIMITED FV 2	0.32	0.55
CROMPTON GREAVES LIMITED NEW FV 2	0.25	0.89
ALSTOM PROJECTS INDIA LTD.	0.25	1.02
ABB LIMITED FV 2	0.20	0.89
SIEMENS LTD FV 2	0.20	0.93
TELECOM	2.60	
BHARTI AIRTEL LIMITED	2.20	0.83
RELIANCE COMMUNICATIONS LIMITED FV - 5	0.39	1.34
POWER	2.58	
TATA POWER FV 10	1.15	1.14
NTPC LIMITED	0.96	1.00
AREVA T & D INDIA LIMITED	0.40	0.96
SUZLON ENERGY LIMITED	0.07	1.39
PHARMACEUTICALS	2.51	
DIVIS LABORATORIES LTD	1.11	0.90
SUN PHARMACEUTICALS INDUSTRIES LTD FV 5	0.52	0.37
CIPLA LIMITED FV 2	0.43	0.55
RANBAXY LABORATORIES LTD. FV 5/-	0.23	0.61
JUBILANT ORGANOSYS LIMITED	0.22	0.44
FMCG	1.73	
HINDUSTAN UNILEVER LIMITED FV 1	1.18	0.50
ITC LTD FACE VALUE INR 1	0.55	0.64
AUTOMOBILES	1.54	
MARUTI SUZUKI INDIA LTD.	0.67	0.68
BAJAJ AUTO LIMITED NEW	0.42	0.70
MAHINDRA & MAHINDRA LTD	0.34	0.91
TATA MOTORS LTD.	0.11	0.89
METALS	1.42	
TATA STEEL LIMITED	0.60	1.21
STEEL AUTHORITY OF INDIA LTD	0.49	1.23
STERLITE INDUSTRIES LTD FV 2	0.24	1.11
HINDALCO INDUSTRIES LTD FV INR 1	0.09	1.25
GAS	0.75	
GAIL (INDIA) LIMITED	0.75	0.89
CEMENT & CEMENT PRODUCTS	0.57	
GRASIM INDUSTRIES LTD FV 10	0.29	0.72
ACC LIMITED	0.28	0.62
OIL EXPLORATION	0.47	
CAIRN INDIA LIMITED	0.47	1.02
CONSTRUCTION	0.32	
JAIPRAKASH ASSOCIATES LTD	0.24	1.55
GAMMON INDIA LIMITED FACE VALUE 2	0.08	0.85
LOGISTICS	0.31	
CONTAINER CORPORATION OF INDIA LTD	0.31	0.26
RETAIL	0.26	
PANTALOON RETAIL INDIA LTD FV 2	0.26	1.06
REAL ESTATE	0.22	
DLF LIMITED	0.22	1.44
FERTILIZERS	0.18	
GUJARAT NARMADA VALLEY FERTILISERS CO. LTD.	0.18	1.23
TEXTILE	0.17	
ADITYA BIRLA NUVO LIMITED	0.17	0.92
AVIATION	0.11	
KINGFISHER AIRLINES LIMITED	0.11	1.49
total equity	**34.96**	
total bank deposits/mutual funds	**15.58**	
total net assets	**100.00**	

asset allocation



fund characteristics as on Oct 31, 2008

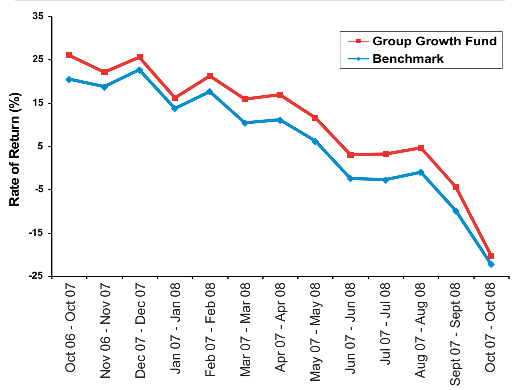
M.Duration of debt portfolio:	1.32 years
YTM of debt portfolio:	11.50%
Beta of equity portfolio:	0.94

NAV as on Oct 31, 2008

Reliance Group Gratuity (GGP) - Growth Fund Option: Rs. 9.0535

Reliance Group Superannuation (GSP) - Growth Fund Option: Rs. 7.6575

rolling yearly performance



Reliance Life Insurance

Anil Dhirubhai Ambani Group

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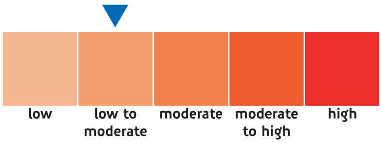
ULIP Balanced Fund

details as on October 31, 2008

fund objective

Provide investment returns that exceed the rate of inflation in the long-term while maintaining a low probability of negative returns in the short-term. The risk appetite is defined as 'low to moderate'.

fund risk profile



products

Reliance Group Gratuity - Balanced Fund Option

Reliance Group Superannuation - Balanced Fund Option

fund manager's report

The month of October saw Sensex falling below 10000.The concerns about slowing earnings growth for Indian corporates and a possible recession in developed markets continues to weigh on the sentiments. Looking at these uncertainties in the domestic and global markets the holding in equities was kept at 17.47%.

The allocation to gilts was at 13.63% higher than previous month's 11.30% as we increased duration. Corporate bonds was also increased to 41.06% from 38.15% in Sept. This was mainly done to take advantage of higher spreads in corporate bonds. The allocation to short-term bank deposits and CDs/CPs was reduced to 27.85% from 31.10% in the previous month. The portfolio is at the desired asset allocation with these changes. However we propose to buy gilts and bonds as and when attractive opportunities are available.

target asset allocation

Debt.:	80%
Equity:	20%

benchmark construction

CRISIL ST Bond Index:	80%
CNX Nifty:	20%

fund performance

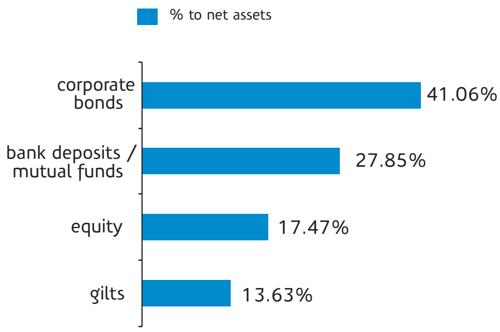
period	gross fund return	benchmark return	fund standard deviation	benchmark standard deviation	fund sharpe ratio	benchmark sharpe ratio
last 1 year	-8.28%	-7.65%	8.24%	7.86%	-1.61	-1.61
last 2 years (CAGR)	2.53%	3.73%	7.69%	7.46%	-0.32	-0.17
last 3 years (CAGR)	6.62%	7.18%	6.95%	6.63%	0.23	0.33
since inception (CAGR)	9.07%	8.19%	5.66%	5.61%	0.72	0.57
date of inception			february, 2003			

*CAGR: Compounded Annual Growth Rate

portfolio

security	% to net assets	rating/ 1-yr beta
corporate bonds		
10.95% RECL LTD 14-08-2011	2.27	AAA
9.90% TATA SONS LTD 20-05-2011	2.22	AAA
8.50% EXIM BANK LTD 12-09-2011	2.14	AAA
8.95% HDFC LTD 16-01-2011	1.96	AAA
9.50% NABARD NPS BONDS SR IX I 15-10-2012	1.71	AAA
9.80% ICICI BANK LTD 10-02-2013	1.65	AAA
8.40% EXIM BANK OF INDIA 28-09-2010	1.63	AAA
9.50% INDIAN HOTEL CO LTD 28-02-2012	1.62	AA+
10% NABARD NCD SR IX 14-05-2012	1.30	AAA
9.35% LIC HOUSING FINANCE LTD 23-11-2014	1.29	AAA
11.65% HDFC LTD 09-09-2010	1.15	AAA
9.65% NABARD SR IX G 10-09-2010	1.13	AAA
10.20% HDFC LIMITED 13-04-2010	1.13	AAA
10.90% RECL LTD 14-08-2013	1.13	AAA
8.50% HDFC LTD. 29-08-2009	1.12	AAA
9.24% L & T FINANCE LTD 30-07-2010	1.11	AA+
9.80% TATA STEEL LTD 07-05-2011	1.10	AAA
9.40% TATA TEA LTD 08-11-2010	1.10	AA+
9.80% POWER FINANCE CORP 22-03-2012	1.10	AAA
8.94% LIC HOUSING FINANCE LTD 16-01-2011	1.09	AAA
8.83% IRFC 29-10-2012	1.07	AAA
7.20% HDFC 03-06-2010	1.04	AAA
6% INDIAN HOTELS LTD 13-05-2011	1.01	AA+
9.35% IL & FS LTD 22-10-2010	0.84	AAA
10.10% POWER GRID CORPORATION 12-06-2011	0.81	AAA
6.25% ULTRATECH CEMENT 25-06-2009	0.78	AAA
9% TATA SONS LTD 27-07-2010	0.77	AAA
9.75% LIC HOUSING FINANCE LTD 24-09-2009	0.75	AAA
6.50% HINDALCO 06-09-09	0.70	AA
10.75% IL & FS LTD SER XI 29-03-2009	0.69	AAA
11.15% POWER FINANCE CORP 15-09-2011	0.69	AAA
9.79% IDFC LTD 11-09-2009	0.68	AAA
9.68% IRFC 03-07-2010	0.65	AAA
9.76% IRFC 03-07-2012	0.64	AAA
9.25% EXIM BANK LTD 13-12-2012	0.54	AAA
10% NABARD 18-06-2010	0.45	AAA
total corporate bonds	**41.06**	
gilts		SOVEREIGN
5.87% GOI 02-01-2010	3.45	
7.37% GOI 2014 16-04-2014	3.12	
6.96% GOI OIL COMPANIES SPLBD 30-03-09	2.08	
7.27% GOI 2013 03-09-2013	2.05	
7.44% GOI SPL OIL BOND 2012 23-03-2012	1.78	
5.48% GOI 12-06-2009	1.14	
total gilts	**13.63**	
equity		
OIL REFINERIES	3.07	
RELIANCE INDUSTRIES LIMITED	1.48	1.14
OIL & NATURAL GAS CORPORATION LTD.	0.94	0.91
RELIANCE PETROLEUM LIMITED	0.27	1.15
BHARAT PETROLEUM CORP LTD	0.25	0.69
HINDUSTAN PETROLEUM CORPORATION LTD FV10	0.13	0.95
BANKING & FINANCE	2.81	
STATE BANK OF INDIA	0.89	1.02
HOUSING DEVELOPMENT FINANCE CORPORATION	0.53	1.16
ICICI BANK LTD	0.39	1.48
HDFC BANK	0.32	1.04
AXIS BANK LIMITED	0.25	1.13
BANK OF BARODA	0.24	0.90
FEDRAL BANK LTD	0.19	0.75
IT	1.92	
INFOSYS TECHNOLOGIES LIMITED FV 5	0.96	0.73
TATA CONSULTANCY SERVICES LIMITED	0.66	0.92
WIPRO LTD.	0.17	0.95
SATYAM COMPUTERS LTD - FV 2	0.14	0.77
CAP GOODS / ENGINEERING	1.86	
BHARAT HEAVY ELECTRICALS LIMITED	0.63	1.04
LARSEN & TOUBRO LIMITED FV 2	0.62	1.04
CUMMINS INDIA LIMITED FV 2	0.16	0.55
CROMPTON GREAVES LIMITED NEW FV 2	0.12	0.89
ALSTOM PROJECTS INDIA LTD.	0.12	1.02
ABB LIMITED FV 2	0.11	0.89
SIEMENS LTD FV 2	0.09	0.93
POWER	1.29	
TATA POWER FV 10	0.58	1.14
NTPC LIMITED	0.48	1.00
AREVA T & D INDIA LIMITED	0.20	0.96
SUZLON ENERGY LIMITED	0.03	1.39
TELECOM	1.28	
BHARTI AIRTEL LIMITED	1.10	0.83
RELIANCE COMMUNICATIONS LIMITED FV - 5	0.17	1.34
PHARMACEUTICALS	1.24	
DIVIS LABORATORIES LTD	0.54	0.90
SUN PHARMACEUTICALS INDUSTRIES LTD FV 5	0.26	0.37
CIPLA LIMITED FV 2	0.22	0.55
JUBILANT ORGANOSYS LIMITED	0.12	0.44
RANBAXY LABORATORIES LTD. FV 5/-	0.11	0.61
FMCG	0.87	
HINDUSTAN UNILEVER LIMITED FV 1	0.59	0.50
ITC LTD FACE VALUE INR 1	0.28	0.64
AUTOMOBILES	0.77	
MARUTI SUZUKI INDIA LTD.	0.34	0.68
BAJAJ AUTO LIMITED NEW	0.21	0.70
MAHINDRA & MAHINDRA LTD	0.17	0.91
TATA MOTORS LTD.	0.05	0.89
METALS	0.69	
TATA STEEL LIMITED	0.28	1.21
STEEL AUTHORITY OF INDIA LTD	0.24	1.23
STERLITE INDUSTRIES LTD FV 2	0.12	1.11
HINDALCO INDUSTRIES LTD FV INR 1	0.05	1.25
GAS	0.38	
GAIL (INDIA) LIMITED	0.38	0.89
CEMENT & CEMENT PRODUCTS	0.29	
GRASIM INDUSTRIES LTD FV 10	0.15	0.72
ACC LIMITED	0.14	0.62
OIL EXPLORATION	0.23	
CAIRN INDIA LIMITED	0.23	1.02
CONSTRUCTION	0.16	
JAIPRAKASH ASSOCIATES LTD	0.12	1.55
GAMMON INDIA LIMITED FACE VALUE 2	0.04	0.85
LOGISTICS	0.16	
CONTAINER CORPORATION OF INDIA LTD	0.16	0.26
RETAIL	0.13	
PANTALOON RETAIL INDIA LTD FV 2	0.13	1.06
REAL ESTATE	0.10	
DLF LIMITED	0.10	1.44
FERTILIZERS	0.09	
GUJARAT NARMADA VALLEY FERTILISERS CO. LTD.	0.09	1.23
TEXTILE	0.08	
ADITYA BIRLA NUVO LIMITED	0.08	0.92
AVIATION	0.05	
KINGFISHER AIRLINES LIMITED	0.05	1.49
total equity	**17.47**	
total bank deposits/mutual funds	**27.85**	
total net assets	**100.00**	

asset allocation



fund characteristics as on Oct 31, 2008

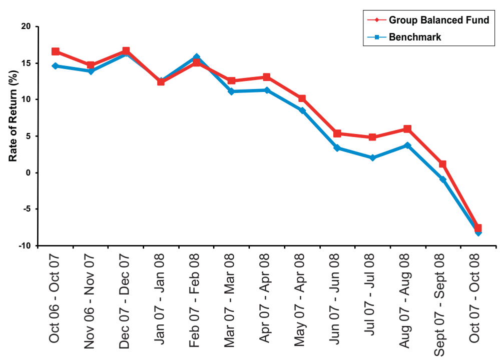
M.Duration of debt portfolio:	1.53 years
YTM of debt portfolio:	10.64%
Beta of equity portfolio:	0.94

NAV as on Oct 31, 2008

Reliance Group Gratuity (GGP) - Balanced Fund Option: Rs. 10.1941

Reliance Group Superannuation (GSP) - Balanced Fund Option: Rs. 12.9145

rolling yearly performance



ULIP Corporate Bond Fund

details as on October 31, 2008

Reliance Life Insurance
Anil Dhirubhai Ambani Group
A Reliance Capital Company

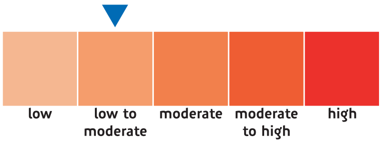
fund performance

period	gross fund return	benchmark return	fund standard deviation	benchmark standard deviation	fund sharpe ratio	benchmark sharpe ratio
last 1 year	6.21%	3.00%	1.66%	2.56%	0.73	-0.78
since inception (CAGR)	6.21%	3.00%	1.66%	2.56%	0.73	-0.78
date of inception			october, 2007			

fund objective

Provide returns that exceed the inflation rate, while taking some credit risk (through investments in corporate debt instruments) and maintaining a moderate probability of negative return in the short-term. The risk appetite is 'low to moderate'.

fund risk profile



products

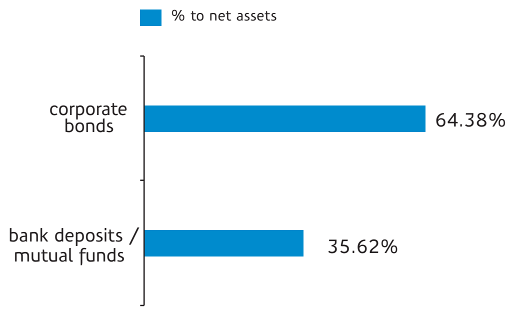
Reliance Group Leave Encashment (GLE) - Corporate Bond Fund Option

Reliance Group Gratuity (GGP) - Corporate Bond Fund Option

portfolio

security	% to net assets	rating
corporate bonds		
9.40% TATA TEA LTD 08-11-2010)	7.06	AA+
9.05% EXIM BANK 06-11-2010	7.06	AAA
8.88% IDFC LTD 07-01-2011	7.01	AAA
8.38% POWER FINANCE CORP 11-12-2009	5.70	AAA
8.94% LIC HOUSING FINANCE 16-01-2011	4.21	AAA
10.05% NABARD 11-06-2014	4.18	AAA
10.90% RECL LTD 14-08-2013	2.90	AAA
9.45% RECL LTD 04-04-2013	2.76	AAA
9.32% HDFC LTD 17-12-2012	2.76	AAA
7.39% POWER GRID CORP 22-09-2011	2.41	AAA
7% POWER FINANCE 24-12-2011	2.11	AAA
9.65% NABARD SR IX G 10-09-2010	1.74	AAA
11.35% RECL LTD 24-10-2013	1.48	AAA
9.75% LIC HOUSING FINANCE 24-09-2009	1.45	AAA
10% HDFC LTD 19-03-2010	1.45	AAA
9.80% TATA STEEL LTD 07-05-2011	1.42	AAA
8.95% HDFC LTD 16-01-2011	1.40	AAA
9.20% HDFC LTD 09-02-2012	1.39	AAA
9.47% POWER GRID CORP 31-03-2013	1.38	AAA
8.75% IRFC 07-01-2013	1.36	AAA
6.25% ULTRATECH CEMENT 25-06-2009	1.29	AAA
7.10% POWER GRID CORP 18-02-2009	1.02	AAA
9.76% IRFC 03-07-2012	0.43	AAA
9.25% EXIM BANK 13-12-2012	0.41	AAA
total corporate bonds	**64.38**	
total bank deposits/mutual funds	**35.62**	
total net assets	**100.00**	

asset allocation



fund characteristics as on Oct 31, 2008

M.Duration of debt portfolio:	1.40 years
YTM of debt portfolio:	11.55%

NAV as on Oct 31, 2008

Reliance Group Leave Encashment (GLE) - Corporate Bond Fund Option: Rs. 10.4809

Reliance Group Gratuity (GGP) - Corporate Bond Fund Option: Rs. 10.0387

fund manager's report

The exposure to corporate bonds was increased to 64.38% higher than 63.54% in Sept. Balance was invested in short term bank FDs, CDs and CPs. We intend to increase exposure to corporate bonds to 80-90% as and when attractive investments are available.

target asset allocation

Bond Instruments: 100%

benchmark construction

CRISIL Composite Bond Index: 100%

ULIP Pure Debt Fund

details as on October 31, 2008

Reliance Life Insurance

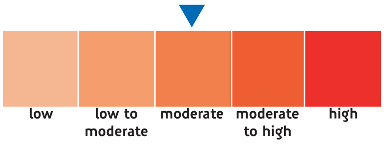
Anil Dhirubhai Ambani Group

A Reliance Capital Company

fund objective

Provide steady investment returns achieved through 100% investment in debt securities, while maintaining moderate probability of negative returns in the short-term. The risk appetite is defined as 'moderate'.

fund risk profile



products

Reliance Group Gratuity (GGP) - Pure Debt Fund Option:

Reliance Group Superannuation (GSP) - Pure Debt Fund Option:

Reliance Group Leave Encashment (GLEP) - Pure Debt Fund Option:

fund performance

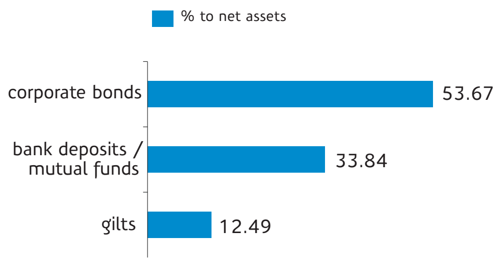
period	gross fund return	benchmark return	fund standard deviation	benchmark standard deviation	fund sharpe ratio	benchmark sharpe ratio
last 1 year	Data not available as the fund has the not completed a period of one year since inception					
date of inception	october, 2008					

*CAGR: Compounded Annual Growth Rate

portfolio

security	% to net assets	rating
corporate bonds		
9% TATA SONS LTD 27-07-2010	6.10	AAA
9.68% IRFC 03-07-2010	4.77	AAA
8.50% EXIM BANK MD 26-09-2011	4.37	AAA
9.65% NABARD SR IX G 10-09-2010	3.94	AAA
11.35% RECL LTD 24-10-2013	3.90	AAA
10.90% RECL LTD 14-08-2013	3.84	AAA
7% POWER FINANCE 24-12-2011	3.25	AAA
8.65% HDFC LTD 12-09-11	3.20	AAA
9.20% HDFC LTD 09-02-2012	2.76	AAA
9.75% LIC HOUSING FINANCE 24-09-2009	2.59	AAA
8.40% EXIM BANK OF INDIA 28-09-2010	2.32	AAA
9.90% TATA SONS LTD 20-05-2011	1.89	AAA
8.94% LIC HOUSING FINANCE 16-01-2011	1.86	AAA
9.35% LIC HOUSING FINANCE 23-11-2014	1.83	AAA
10.10% POWER GRID CORP 12-06-2011	1.19	AAA
9.35% HDFC LTD 09-11-2009	0.95	AAA
8.38% POWER FINANCE CORP 11-12-2009	0.94	AAA
9.35% IL & FS LTD 22-10-2010	0.94	AAA
10% NABARD NCD SR IX 14-05-2012	0.94	AAA
9.80% TATA STEEL LTD 07-05-2011	0.94	AAA
9.76% IRFC 03-07-2012	0.56	AAA
7.60% ICICI BANK LTD 30-12-2015	0.40	AAA
7.20% HDFC 03-06-2010	0.18	AAA
total corporate bonds	**53.67**	
gilts		SOVEREIGN
7.27% GOI 2013 03-09-2013	4.76	
5.48% GOI 12-06-2009	3.87	
5.87% GOI 02-01-2010	2.89	
6.96% GOI OIL COMP SPLBD 30-03-09	0.97	
total gilts	**12.49**	
total bank deposits/mutual funds	**33.84**	
total net assets	**100.00**	

asset allocation



fund characteristics as on Oct 31, 2008

M.Duration of debt portfolio:	1.42 years
YTM of debt portfolio:	10.99%

fund manager's report

The exposure to gilts was slightly lower at 12.49% compared to 14.76% from 13.40% in August in order to increase duration. Exposure to corporate bonds was increased to 53.67% from 51.95% as they were available at attractive spreads. The exposure to short term assets was at slightly higher at 33.84% compared to 31.09% in Sept. We intend to purchase bonds and gilts as and when attractive investments are available.

NAV as on Oct 31, 2008

Reliance Group Gratuity (GGP) - Pure Debt Fund Option: Rs. 10.0738

Reliance Group Superannuation (GSP) - Pure Debt Fund Option: Rs. 10.0512

Reliance Group Leave Encashment (GLEP) - Pure Debt Fund Option: Rs. 10.0786

target asset allocation

Debt Instruments: 100%

benchmark construction

CRISIL Composite Bond Index: 100%

![Reliance Life Insurance]

Reliance Life Insurance

Anil Dhirubhai Ambani Group

A Reliance Capital Company

ULIP Gilt Fund

details as on October 31, 2008

fund performance

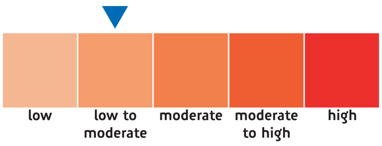
period	gross fund return	benchmark return	fund standard deviation	benchmark standard deviation	fund sharpe ratio	benchmark sharpe ratio
last 1 year	8.44%	11.65%	3.01%	10.06%	1.14	0.66
since inception (CAGR)	8.44%	11.65%	3.01%	10.06%	1.14	0.66
date of inception			october, 2007			

*CAGR: Compounded Annual Growth Rate

fund objective

Provide returns that exceed the inflation rate, without taking any credit risk (sovereign risk only) and maintaining a low probability of a negative return in the short- term. The risk appetite is 'low to moderate'.

fund risk profile



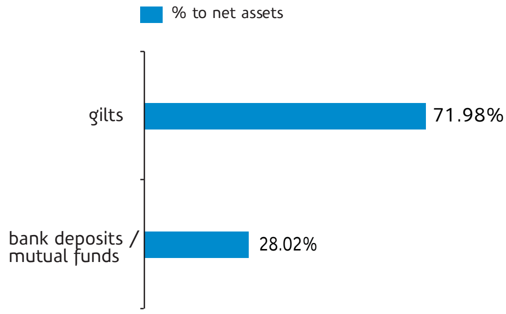
products

Reliance Group Leave Encashment (GLE) - Gilt Fund Option

portfolio

security	% to net assets	rating
gilts		SOVEREIGN
5.87% GOI 02-01-2010	23.74	
7.27% GOI 2013 03-09-2013	20.62	
6.96% GOI OIL COMP SPLBD 30-03-09	11.11	
5.48% GOI 12-06-2009	11.06	
9.39% GOI 2011 02-07-2011	5.38	
9.85% GOI 2015 16-10-2015	0.07	
total gilts	**71.98**	
total bank deposits/mutual funds	**28.02**	
total net assets	**100.00**	

asset allocation



fund characteristics as on Oct 31, 2008

M.Duration of debt portfolio:	1.39 years
YTM of debt portfolio:	8.45 %

NAV as on Oct 31, 2008

Reliance Group Leave Encashment (GLE) - Gilt Fund Option: Rs. 10.7036

fund manager's report

The allocation to gilts was increased to 71.98% in Oct as compared to 69.54% in previous month thereby taking advantage to high volatility in gilt yields. Balance was invested in high yielding short term bank FDs, CDs and CPs. We intend to increase duration to take advantage of rally in G sec market.

target asset allocation

Government Securities: 100%

benchmark construction

I-Sec Composite Sovereign Bond Index: 100%

Reliance Life Insurance

Anil Dhirubhai Ambani Group

A Reliance Capital Company

ULIP Money Market Fund

details as on October 31, 2008

fund performance

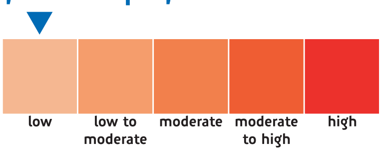
period	gross fund return	benchmark return	fund standard deviation	benchmark standard deviation	fund sharpe ratio	benchmark sharpe ratio
last 1 year	Data not available as the fund has the not completed a period of one year since inception					
date of inception	November, 2007					

*CAGR: Compounded Annual Growth Rate

fund objective

Maintain the capital value of all contributions (net of charges) and all interest additions, at all times. The risk appetite is 'low'.

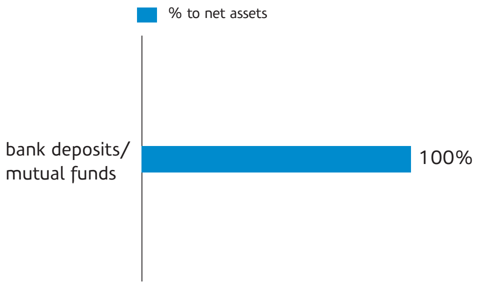
fund risk profile



portfolio

security	% to net assets
total bank deposits/mutual funds	**100.00**
total net assets	**100.00**

asset allocation



products

Reliance Group Leave Encashment (GLE) - Money Market Fund Option

Reliance Group Gratuity (GGP) - Money Market Fund Option

Reliance Group Superannuation (GSP) - Money Market Fund Option

fund characteristics as on Oct 31, 2008

M.Duration of debt portfolio:	0.30 years
YTM of debt portfolio:	11.61 %

NAV as on Oct 31, 2008

Reliance Group Leave Encashment (GLE) - Money Market Fund Option: Rs. 10.8801

Reliance Group Gratuity (GGP) - Money Market Fund Option: Rs. 10.0871

Reliance Group Superannuation (GSP) - Money Market Fund Option: Rs. 10.0495

fund manager's report

Presently the investments of this fund are entirely in Certificate of deposits, Commercial Paper and Fixed Deposits i.e. at 100% of the portfolio. The fund is outperforming its peers and benchmark in returns.

target asset allocation

Money Market Instruments: 100%

benchmark construction

CRISIL Liquid Bond Index: 100%

Reliance Life Insurance

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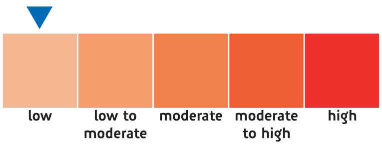
ULIP Capital Secure Fund

details as on October 31, 2008

fund objective

Maintain the capital value of all contributions (net of charges) and all interest additions, at all times. The risk appetite is 'extremely low'.

fund risk profile



products

Reliance Group Gratuity (GGP) - Capital Secure Fund Option

Reliance Group Superannuation (GSP) - Capital Secure Fund Option

fund performance

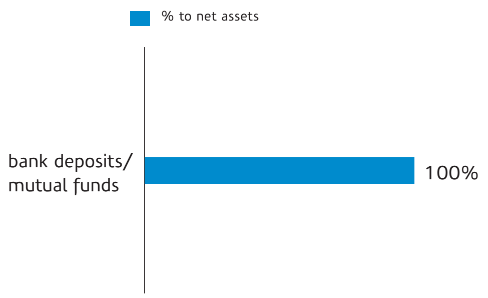
period	gross fund return	benchmark return	fund standard deviation	benchmark standard deviation	fund sharpe ratio	benchmark sharpe ratio
last 1 year	9.92%	8.23%	0.31%	0.22%	16.04	14.57
last 2 years (CAGR)	8.93%	7.89%	0.42%	0.22%	9.28	13.25
last 3 years (CAGR)	8.05%	7.46%	0.55%	0.25%	5.53	9.91
since inception (CAGR)	6.66%	6.04%	0.62%	0.48%	2.67	2.14
date of inception			february, 2003			

*CAGR: Compounded Annual Growth Rate

portfolio

security	% to net assets
total bank deposits/mutual funds	100.00
total net assets	100.00

asset allocation



fund characteristics as on Oct 31, 2008

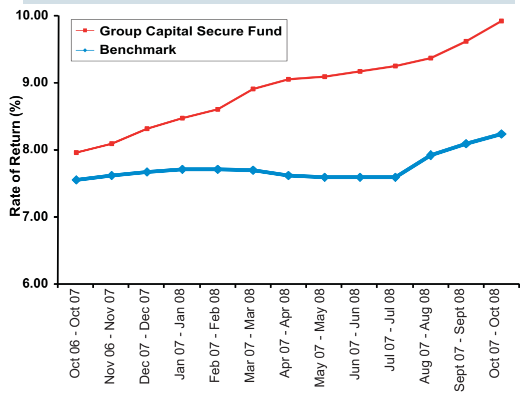
M.Duration of debt portfolio:	0.20 years
YTM of debt portfolio:	11.09%

NAV as on Oct 31, 2008

Reliance Group Gratuity (GGP) - Capital Secure Fund Option: Rs. 11.5259

Reliance Group Superannuation (GSP) - Capital Secure Fund Option : Rs 10.5131

rolling yearly performance



fund manager's report

The allocation to CDs and CPs and bank fixed deposits was maintained at 100% to take advantage of high yields in these instruments. The fund continues to outperform its benchmark.

target asset allocation

Money Market Instruments: 100%

benchmark construction

Yield on 182-day T.Bills

Reliance Life Insurance
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investment strategy and risk control

- Macro Analysis
- Appreciation of Market Dynamics
- Meeting Investment Objectives vis-à-vis Risk Appetite
- Asset Allocation Strategy
- Security Selection – Portfolio Construction
- Benchmarks
- Risk Management/ Portfolio Evaluation/ Diagnostics
- Governance and Processes

Macro analysis of the economy is carried out by tracking the trends in key economic indicators.

Market dynamics are also studied apart from the above to determine our view of the changes likely in the interest rate scenario and equity market movements. Price movements in the market are monitored at all times along with factors that affect them such as the prevailing market sentiments, cash flows in the market and views/actions of key market participants including institutional investors like FIIs and mutual funds. For analyzing the debt markets, yield curve movements and changes in its shape are also studied.

The **risk appetite and investment objective** is clearly defined for each fund keeping in mind the investment horizon, liquidity requirements etc.

A range of acceptable holdings under each asset class is determined at the investment policy level. The **asset allocation** primarily takes into account, the investment objectives, regulatory issues and the likely risk return matrix to obtain a potential return which is the highest achievable for the risk that is assumed. Within the strategic asset allocation, the fund managers determine the weights of the various asset classes; primarily factoring in the developing market scenarios.

Based on the investment objectives of each fund option, a rigorous **security selection** process is followed. The fixed income fund manager identifies cheaper securities across the yield curve and builds a basket of securities to arrive at the optimum level of yield within the range of pre-determined 'duration' for the entire portfolio after paying particular attention to the liquidity position and the liquidity premium on the securities. An active fund management style is followed or the equity portfolios. A core portfolio of stocks is first created driven by a top-down approach and a research based bottom-up stock selection method is followed.

Benchmarks are pre-determined for each fund based on the most appropriate indices available in the market or by constructing proxy benchmarks out of multiple indices. Performance of each fund is continuously tracked based on the benchmarks and recalibrated.

A statistical analysis is carried out to determine that the **risk levels** are in tune with the risk appetite of the particular fund. Statistical tools such as the standard deviation and risk-adjusted return measures such as the Sharp ratio are calculated in order to compare the returns generated per unit of risk vis-à-vis benchmarks.

The investment policy has been designed by the **Board** to cover regulatory guidelines, the various product investment objectives, risk appetite strategic asset allocation and the investment style. It is ensued that the portfolio is always kept complaint with the relevant regulations. Our rigorous processes and risk/compliance controls are well documented.

Reliance Life Insurance
Anil Dhirubhai Ambani Group

A Reliance Capital Company

- Gross Fund Return
- Benchmark Return
- Fund Standard Deviation
- Fund Sharpe Ratio

the analyst expressions

Gross Fund Return

Gross return for a fund is defined as the return calculated on an NAV basis plus the fund management fees which are debited periodically to the fund. We calculate gross fund returns in order to give uniformity while evaluating fund management performance as the fund management fees vary from company to company. Fund management charges are a matter of policy decision by the top management of a life insurance company. Hence, even if two funds from two different fund management companies give the same returns, the returns may not reflect that if they are calculated on an NAV basis.

We shall highlight this with the help of an example.

Reliance Life Insurance	XYZ Insurance Company
Balanced Fund	Balanced Fund
NAV based Return=11.50 %	NAV based Return=10.50%
Fund Management Fee=2%	Fund Management Fee=3%
Gross Fund Return=13.50%	Gross Fund Return=13.50%.

As seen above, though the gross return of both the companies were same, Reliance Life Insurance showed a higher NAV based return as the fund management fees were lower. Please note that the returns as given in The Analyst for all funds are computed on a gross basis.

Benchmark Return

A benchmark is a standard against which the performance of an investment can be measured. Benchmarks are pre-determined primarily on the basis of the asset allocation structure of the fund.

Benchmarks can be readily available in the market or have to be constructed. The CNX Nifty is a readily available benchmark for our equity portfolio manager as the equity fund primarily invests in equities.

However, the benchmark for the Growth Fund of Reliance Life Insurance has been constructed as 60% of CRISIL Short Term Bond Index and 40% of CNX Nifty as the asset allocation of the growth fund is 60% of debt and 40% of equity. (Please refer to the Growth Fund page of The Analyst).

Fund Standard Deviation

Risk of investing in a fund is identified by the volatility of the fund's periodic returns. Standard deviation measures the volatility of the fund's returns for a given time period.

In other words, Fund Standard Deviation for a particular time period gives us the deviation from the mean returns, that has occurred for that fund during that time period. For e.g. let us assume that the Balanced Fund has generated an average (mean) return of 11.55% for the last 2 years and that the corresponding standard deviation was 4.44%. That means that during the last 2 year time period, the balanced fund return varied between 15.99% (i.e. 11.55+ 4.44) and 7.11% (i.e. 11.55-4.44) during 65% of the time.

Higher the standard deviation, the greater the volatility, and therefore, the greater the risk of investing in that fund.

Thus, an investor has more information available at his disposal to evaluate the quality of performance of the fund and how volatile its returns are.

To carry it a step further, it is highly unlikely that a fund's return in any one year will be exactly the average. Rather, it will always be either higher or lower than the average. Thus, standard deviation teaches us to look beyond the "average annual return" figures that are touted by investment advisors.

Fund Sharpe Ratio

Sharpe ratio of a fund tells us how much return the fund has been able to generate per unit of risk. The higher the Sharpe Ratio, the better the performance of a fund from a risk point of view.

The excess return generated by a fund for a particular time period is first calculated by subtracting the risk free rate from the rate of return generated by that fund during that time period. Dividing this result by the standard deviation of the fund return during that time period, one can obtain the Sharpe ratio.

Sharpe Ratio = Excess return / Annualized standard deviation of fund return

The "risk-free return" is the annualized return currently available on "risk-free" investments. This is usually assumed to be the return on a short government security like Treasury bill. A government security is sovereign credit which is the nearest to a risk free asset that one can get. For our calculations of the Sharpe ratios for all funds as given in the Analyst, we have assumed this risk free rate of interest to be at 5%.

the analyst expressions Contd...

We shall assume that 9.85% was the annualized gross return for a 3-year time period for the balanced fund, 5% p.a. was the assumed risk free rate of return as discussed above and 4.14% p.a. was the standard deviation of this 3-year return. The Sharpe ratio can be calculated as follows:

(9.85-5)%/4.14%=1.17.

The Sharpe ratio tells us whether the returns of a portfolio are due to smart investment decisions or a result of excess risk. This measurement is very useful because although one portfolio or fund can reap higher returns than its peers, it is only a good investment if those higher returns do not come with too much additional risk. The greater a portfolio's Sharpe ratio, the better its risk-adjusted performance has been.

- ✓ Benchmark Sharpe Ratio
- ✓ Modified Duration of Debt Portfolio
- ✓ Fund Beta

Benchmark Sharpe Ratio

Just as the fund returns are compared to a benchmark return, the Sharpe ratio of the fund is also compared to the benchmark's Sharpe ratio in order to evaluate the risk-adjusted performance. In our example above, let us assume that the benchmark Sharpe ratio of the balanced fund for the last 3 years is 0.98. This means that over a three-year time period, the Balanced Fund of Reliance Life Insurance has given a higher risk-adjusted return than the comparable risk-adjusted return provided by the constructed benchmark.

While calculating the benchmark Sharpe ratio of 0.98, let us assume that 9.10% was the annualized gross return provided by the constructed benchmark for the balanced fund for the last 3-year time period, 5% p.a. was the assumed risk free rate of return, and 4.21% p.a. was the standard deviation of the 3-year benchmark return.

The benchmark Sharpe ratio for the Balanced Fund for the last three years has been calculated as follows:
(9.10-5)%/4.21%=0.98.

Modified Duration of Debt Portfolio

The value of a fund's debt portfolio is sensitive to changes in interest rates. When interest rates rise, bond prices fall, and vice versa. Generally, a debt portfolio comprising of bonds with higher maturities will have a higher price fluctuation than a portfolio comprising of bonds with lower maturities. Modified duration, indicates the sensitivity of the value of the debt portfolio to any given change in interest rates. Modified Duration is derived from Duration, which represents a weighted average of the time periods to maturity.

Modified Duration gives one an immediate rule of thumb -- the percentage change in the price of a bond is the duration multiplied by the change in interest rates. So, if a bond has duration of 10 years and interest rates fall from 8% to 7.5% (a drop of 0.50 percentage points), the bond's price will rise by approximately 5% (i.e. 10 x 0.50%).

Let us assume that the modified duration for the Balanced Fund is 2.03. If interest rates drop from 8% to 7.5%, the value of this debt portfolio will rise by 1.015% (i.e. 2.03 x 0.50%). Similarly, when interest rates rise from 8% to 8.5%, say, the value of this debt portfolio will fall by 1.015%.

Fund Beta

Beta measures the risk of a security (say a particular stock) in relation to its broad market. The broad market is generally defined as the specified benchmark index. The Beta assigned to the benchmark index is 1. Beta of the stock describes the sensitivity of the price of the stock to the benchmark index. (For the more statistically inclined readers, Beta is the slope of the regression line). It is generally calculated for equity portfolio/funds.

If a stock has a beta of 1, that stock is likely to generate the same returns as the market. If the beta of a stock is more than 1, it means that the stock is likely to give higher returns compared to the market but also at a higher risk as compared to the market. For instance, a stock with beta of 1.2 means that when the market, say Nifty, gives a return of 10 %, that stock is likely to generate returns of 12% (i.e. 1.2*10%). Similarly, a low beta stock has given lower returns compared to what the market has delivered for a particular time period. For e.g. for a stock with beta of 0.80, if the Nifty gives returns of 10%, the stock is likely to give returns of only half of that, i.e. 8%. (i.e. 0.80*10%)

Now we shall see the impact of these two stocks when the market falls. When the Nifty gives negative returns of 10%, i.e the market falls by 10%, the price of the stock with beta of 1.2 will fall by 12%. However, though the price of the stock with the low beta of 0.8 will also fall when the market falls, it will not fall as much as the market. If the market falls by 10%, the price of this scrip will fall only by 8%.

The fund beta is nothing but the betas of individual stocks in the equity portfolio multiplied by the weight of that stock in the portfolio. If a fund has a high beta, the equity portfolio of that fund is aggressive and tilted towards high beta stocks and vice versa. Please note that the betas of individual stocks as given in the Equity Fund page of the Analyst have been calculated based on the available prices of the stocks on the NSE for the last 1-yr period.

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Anil Dhirubhai Ambani Group
A Reliance Capital Company

the analyst

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