NIPPON LIFE INSURANCE

A RELIANCE CAPITAL COMPANY

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INVESTMENT BULLETIN

October 2021

Content

From the Desk of CIO

'Swift and Strong Economic Recovery' was the narrative for the Indian economy all through Q2FY22. This was on account of our transition towards the path of normalization which has gathered steam since June 2021 (post the second wave of Covid-19).

Global market scenario:

Global equity markets continued their good run aided by the ongoing global recovery, liquidity conditions and the US Fed's supportive commentary on monetary normalisation. The decline in Covid-19 cases and surge in the pace of vaccination across countries were key positives during the quarter. However, headwinds emanated from the rise in inflation which was primarily led by the spike in energy prices and rising demand. In addition, concerns about China's slowdown stemming from regulatory crackdown and fear of contagion from default by a large real estate company induced bouts of volatility in the global markets.

Indian market scenario:

Indian economy - India's GDP grew by 20.1% in Q1FY22 on the back of the lower base in Q1FY21. GDP growth was also aided by the fewer restrictions levied in the second wave of Covid-19. The recovery in the aftermath of the second wave has been rapid as indicated in the high frequency indicators like Manufacturing PMI, port traffic, E-way bills, power consumption, google mobility index etc. This quarter saw a slew of reforms in terms of policy announcements from the Government such as formation of bad bank, resolution of stress in the telecom sector and introduction of Production Linked Incentive (PLI) scheme in various sectors. The decline in Covid-19 cases in India coupled with an increase in the pace of vaccination (nearly 70% of adult population have received at least one dose) has gone a long way in supporting investor sentiment. The Indian equity markets fared much better compared to its global counterparts in the September 2021 quarter, as Nifty returned 12%, while MSCI Emerging Market was down 8.8% largely led by the underperformance of equity markets in China. In terms of flows, FII net inflow to Indian equity markets was $0.45 bn during Q2FY22 which was slightly lower than the FII inflow of $0.75 bn in Q1FY22.

On the macro front, we believe that the Indian economy is at an inflection point that earmarks the advent of a new virtuous growth cycle. We expect growth recovery to strengthen with continued normalisation in economic activity and the rampant vaccination drive. While rural consumption has remained resilient, urban consumption is gradually picking up pace. A synchronous recovery in domestic consumption and external demand will help to improve capacity utilisation and a favourable policy response from the government would in turn set the stage for a revival in the capex cycle. We expect public capex to gather pace in the coming months, and subsequently crowd in private investments as well. The Union Budget FY22 was clearly a bold step in the direction of creating and establishing a growth conducive platform that would support growth for the next few years. **We reckon that the long-term structural growth platform of India remains intact and that the demand engine is set to improve, aided by government support and reforms hereon.**

Debt market - With respect to bond markets during last quarter, RBI maintained its accommodative monetary policy stance and kept the 10-yr bond yields anchored at lower levels to support growth and the large government borrowing program. However, on the global front, the US 10Y bond yield saw some volatility during the quarter post the FOMC meeting wherein the Fed Chairman distinctly spoke about tapering of asset purchase happening by end of the current calendar year, although rate hike may not happen soon. On the domestic front, distinct improvement in government finances this fiscal on the back of higher tax collections is indeed a macro positive from the bond market perspective. However, given the large quantum of gross bond supply, the yields are likely to remain at elevated levels. Going forward, policy rates are expected to remain status quo for the next few months and normalisation of rates may begin in 2022. In its October policy, the RBI seems to have embarked on a slow and gradual exit from the incumbent loose monetary policy. While it may continue supporting the bond market by way of unconventional policy measures, it has started reducing the short-term liquidity by /withdrawing the GSAP program. **With tolerable inflation trajectory, the policy design to continue contributing to growth revival while retaining flexibility to calibrate monetary policy as the situation evolves is highly commendable.** The key policy driver continues to be the evolving domestic factors with an eye on global developments. The Monetary Policy Committee of India (MPC) has stated that the Monetary Policy reversal will be a gradual process which will be non-disruptive for growth. The future course of global and domestic bond yields will be more a function of the global and domestic inflation trajectory, growth sustainability, Fed's stance on rate hikes and liquidity, and the likely inclusion of India in global bond indices.

Equity Market Outlook - From the Equity markets standpoint, despite the sharp rally that markets have witnessed over the last 18 months, there are still pockets of opportunities available. India's structural outlook has improved materially, and India is one of the fastest growing major economies. With the second wave of Covid-19 and its aftermath behind us and fears of strong third wave waning, the outlook for the Indian economy has turned positive especially in terms of a revival in domestic consumption. Conducive Government policies and a seminal change in the attitude of the Government with respect to fiscal conservatism may lay the path for capex revival. **With both engines of growth – domestic consumption and investments – contributing to economic revival, the longer-term outlook for the equity markets remains quite sanguine**.

Monetary policy globally is also likely to normalise slowly but will remain supportive in the near to medium until improvement in growth is sustainable. While it is conspicuous that tapering of US asset purchases may have an adverse impact on emerging economies, India is relatively better insulated this time vs fed tapering in 2013, given the structural changes in the economy in terms of a robust growth outlook, significant improvement in India's external position with a manageable Current Account Deficit and Forex reserves being at all-time high. The backdrop for September 2021 quarterly earnings season has turned quite favourable after a muted Q1FY22 due to the impact of Covid-19. Sequentially, we are likely to witness strong earnings momentum aided by normalization of economic activity and pre-festive buying starting from early September. Though the current valuations seem expensive in terms of the traditional valuation parameters, they seem reasonable from the context of the incumbent macro environment of abundant liquidity and lower interest rates. **Going forward, market valuations are likely to draw comfort from improving profitability, rising ROE's, comfortable interest rates and deleveraged balance sheets. Given 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	19.51%	54.84%	22.84%	16.02%	13.69%	11.46%
Nifty 50 Index	19.93%	56.64%	23.91%	17.25%	15.39%	10.88%
Life Large Cap Equity Fund	17.85%	54.46%	n.a.	n.a.	n.a.	20.80%
Nifty 50 Index	19.93%	56.64%	n.a.	n.a.	n.a.	23.11%
Life Equity Fund 2	19.85%	55.20%	22.81%	16.17%	13.69%	11.73%
Nifty 50 Index	19.93%	56.64%	23.91%	17.25%	15.39%	10.75%
Life Pure Equity Fund 2	20.82%	51.04%	25.20%	16.46%	13.49%	10.71%
Benchmark	20.62%	51.71%	23.38%	16.04%	14.25%	10.09%
Life Infrastructure Fund 2	24.49%	76.55%	27.67%	15.32%	12.85%	5.63%
Benchmark	25.91%	77.64%	30.84%	16.99%	14.29%	4.77%
Life Energy Fund 2	31.01%	89.46%	28.71%	18.11%	15.37%	8.65%
Benchmark	29.90%	87.71%	28.02%	18.15%	14.08%	8.02%
Life Midcap Fund 2	24.98%	78.22%	34.26%	19.91%	14.52%	12.95%
Benchmark	22.24%	77.40%	37.26%	21.44%	15.89%	9.83%
Make In India Fund	18.92%	45.49%	20.59%	12.35%	11.96%	13.00%
Benchmark	19.93%	56.64%	23.91%	17.25%	15.39%	17.29%
Life Balanced Fund 1	7.57%	14.62%	11.10%	9.48%	7.17%	8.27%
Composite Benchmark*	6.61%	14.63%	12.05%	12.04%	9.55%	8.31%
Life Money Market Fund 1	1.04%	2.06%	2.90%	2.69%	3.27%	6.12%
Crisil 91 day T bill Index	1.78%	3.44%	4.21%	5.16%	5.70%	6.92%
Life Corporate Bond Fund 1	3.78%	5.24%	7.79%	8.11%	5.70%	7.71%
Crisil Composite Bond Fund Index	3.39%	5.83%	8.57%	10.24%	7.78%	8.22%
Life Gilt Fund 1	3.22%	4.77%	6.84%	9.35%	6.57%	7.15%
Crisil Dynamic Gilt Index	3.77%	5.43%	8.04%	10.08%	7.37%	8.60%

*Composite Benchmark comprising of Crisil Composite Bond Fund Index with 80% weight and Sensex 50 with 20% weight
As on 30-Sept-2021
Note – Returns more than 1 year are CAGR returns

Fund Strategy and Outlook - Equity

Equity:

There has been a stellar rally in the equity markets in the last 18 months. This has been in the backdrop of the economy showing strong signs of recovery and abundant liquidity both global and domestic. The Indian economy is set for a major reset in the next few years as the government and central bank have laid the foundation for a strong economic revival.

We remain positive on sectors which are likely to benefit from recovery in domestic consumption as GDP growth picks up. These sectors are namely banking, private financial, consumer discretionary, consumer staples and telecom. Also, we are playing the theme of capex revival in India through sectors like cement and infrastructure. We look favourably at sectors like IT too, as Covid-19 has created a tailwind for this sector during the last one year due to increased demand.

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.

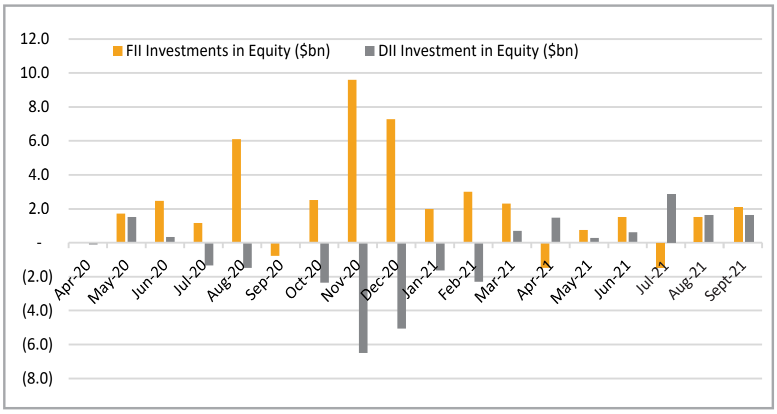
Indian Equity Market Performance

Index performance

	3 Month	6 Month	1 Year
Board Based Indices			
Sensex	13.0	18.2	52.8
Nifty	12.4	18.5	54.3
Defty	12.9	18.9	56.7
BSE 100	11.7	20.3	57.0
BSE 200	11.6	21.1	59.3
BSE500	11.5	22.1	61.2
Nifty Jr	10.1	24.0	56.8
Bse Mid Cap	12.1	25.1	71.7
Nse Mid Cap	12.7	28.2	78.9
BSE Small Cap	11.3	36.0	88.9
Sectoral Indian Indices			
Auto	0.4	7.3	33.5
Bankex	8.6	13.8	75.4
Capital Goods	13.1	23.1	87.7
Consumer Durables	16.2	25.9	70.3
FMCG	9.9	15.4	34.5
Health Care	2.0	22.3	31.8
IT	14.2	29.7	72.3
Metal	8.1	40.6	143.0
Oil & Gas	13.1	23.5	49.5
Power	16.3	29.2	93.5
PSU (State Owned Enterprises)	8.9	26.4	86.6
Realty	49.7	53.7	145.5

Source: NSE, BSE, Data as on 30th September, 2021
Please note: Past performance is not an indicator of future performance.

Institutional flows



Source:
NSE, BSE, Data as on 30th September, 2021

Fund Strategy and Outlook - Debt

Debt Fund Strategy and Positioning:

On October 8, 2021, Reserve Bank of India's (RBI) Monetary Policy Committee (MPC) decided to keep key rates unchanged while maintaining an 'Accommodative Stance' to support the economy. However, with an existing liquidity overhang and with the absence of any additional borrowing for GST compensation, the RBI did not consider the need of planned G-Sec Acquisition Programme 3.0 for Q3FY22, like conducted in Q1FY22 and Q2FY22, respectively. With this, the normalization of monetary policy is expected to begin in the coming months, although the normalization is likely to be gradual.

The noticeable improvement in government finances is a macro positive for bonds. Even adjusted for this improvement, gross bond supply will still likely be large enough to disallow any sustained fall in bond yields. Also, policy normalization has gradually begun with Federal Open Market Committee and European Central Bank warranting for moderation in asset purchases in coming months, further keeping pressure on bond yields.

Our portfolios are positioned to benefit from rich spreads offered in the belly of the Gsec curve. We maintain 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	3.58	30	3.66	4
6M	3.88	21	3.98	4
12M	4.08	4	4.14	4

Note – Q-o-Q change is over June 2021 to Sept 2021
Data Source – Reuters, Bloomberg, CRISIL

Debt market indicators

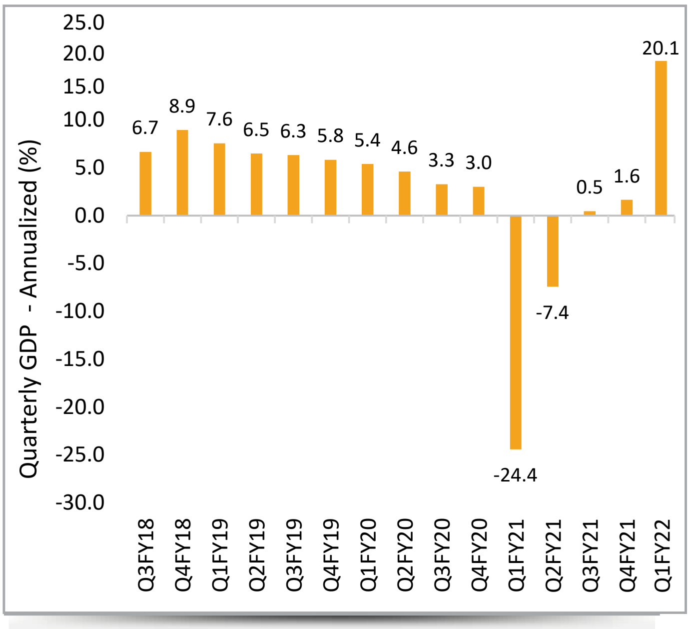
Bond market (%)				
		Change (Q-o-Q)		Change (Q-o-Q)
Tenure	G-Sec	(bps)	AAA CB	(bps)
3Y	4.97	8	5.35	-5
5Y	5.71	-1	6.00	-5
10Y	6.28	23	6.79	-9

Please note: Past performance is not an indicator of future performance.

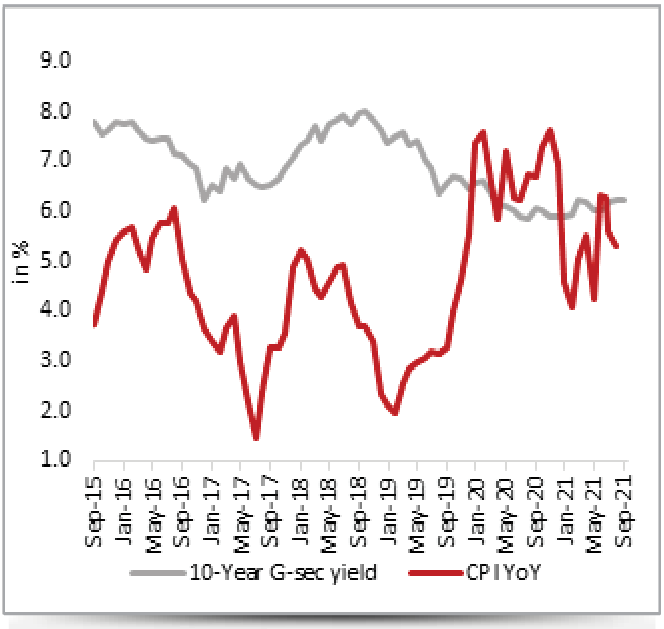
Key Economic Indicators

Other market and economic indicators:

Real GDP (%) – RBI has estimated real GDP growth rate of 9.5% for FY2022

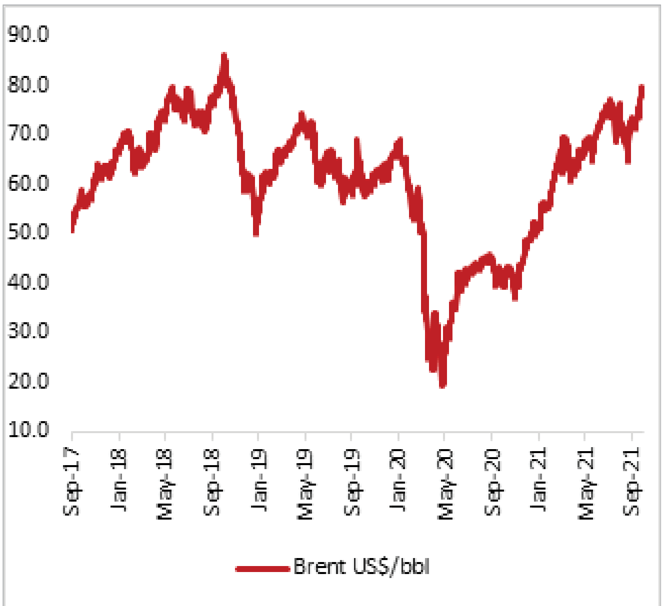


CPI moderated to 5.3% y/y in August 2021 compared to 6.3% y/y in June 2021 largely led by easing of food prices

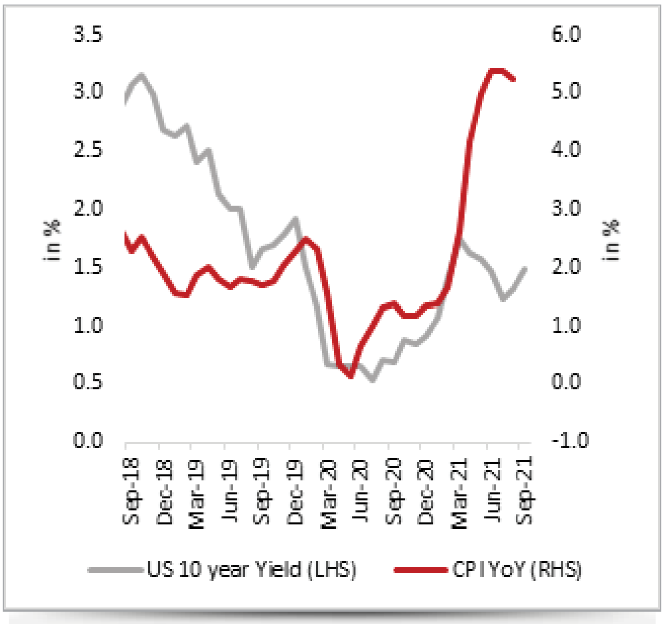


Source: Bloomberg , MOSPI, Reuters

Brent Crude Oil prices surged by 82.8% y/y in September 2021 led by demand supply gap



With expectation of moderation in asset purchases in coming months, US yields spiked by 30 bps to 1.5% in last two months



Source: Reuters

Key Economic Indicators

Other market and economic indicators:

Economic indicators heat map									
Indicators	**Aug-21**	**Jul-21**	**Jun-21**	**May-21**	**Apr-21**	**Mar-21**	**Feb-21**	**Jan-21**	**Dec-20**
Industrial Sector									
Manufacturing PMI	52.3	55.3	48.1	50.8	55.5	55.4	57.5	57.7	56.4
8 Core Industries (YoY)	11.6%	9.9%	9.3%	16.4%	62.6%	12.6%	-3.3%	1.3%	0.4%
Rail Freight Traffic (Loading in million tonnes)	110.6	112.7	112.7	114.8	111.5	130.4	112.3	119.8	118.3
Rail Passenger Traffic (in million)	256.0	191.9	142.1	86.1	211.7	316.3	288.1	239.1	189.6
Consumer Economy									
Passenger Vehicle Sales in thousands	232.2	264.4	231.6	88.0	261.6	291.0	281.4	276.6	253.0
Two Wheeler Sales in thousands	1331.4	1253.9	1055.8	352.7	995.1	1497.0	1426.9	1429.9	1,127.9
Tractor Sales in thousands	65.5	76.4	120.4	63.3	72.3	95.2	84.7	87.6	71.7
Domestic Air Passenger Traffic in thousands	6701.0	5007.0	3113.0	2115.0	5725.0	7822.0	7827.0	7734.0	7327.0
Inflation									
CPI inflation, % y/y	5.3%	5.6%	6.3%	6.3%	4.2%	5.5%	5.0%	4.1%	4.2%
WPI inflation, % y/y	11.4%	11.2%	12.1%	12.9%	10.5%	7.9%	4.8%	2.5%	2.0%
Deficit Statistic									
Trade Balance, USD billion	-13.8	-11.0	-9.4	-6.3	-15.1	-13.9	-12.6	-14.5	-15.4
Fiscal Deficit (₹ Billion)	1,468.7	469.0	1,510.7	444.8	787.0	4,159.1	1,715.5	755.4	829.6
GST									
GST collections (₹ Billion)	1,120.2	1,163.9	928.5	1,027.1	1,413.8	1,239.0	1,131.4	1,198.5	1,152

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

Key Economic Indicators

- Inflation moderated to a 4-month low to 5.3% in August 2021 mainly led by easing food inflation. Main drivers of lower food inflation were cereals and vegetables which held ~34% weightage in the food basket.
- Domestic Air Passenger Traffic improved substantially in August 2021 by 33.8% on a month-on-month basis, hinting recovery in mobility movement which is further likely to benefit the hospitality sector.
- GST collections for the last 3 months have sustained above Rs.1 trillion, reflecting recovery in consumer sentiment and spending.
- Outlook for auto sales remains positive due to the harvesting and festive season.
- 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.

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
ULIF04601/01/10LPUEQUTY02121	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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