

A Quarterly Newsletter by Reliance Nippon Life Insurance

INVESTMENT BULLETIN

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■ From the Desk of CIO ■

Lately, the world macro-economic landscape looks aberrated as advanced economies (AEs) diverged in their economic performance. The US economy showed resilience as consumption surprised on the upside and labour market remained relatively tight while Europe and UK suffered from elevated inflation, consequently subverting the economic growth. Amongst the Emerging economies (EEs) India led on the growth parameter while China fell on its sword as the government's efforts did little to revive the animal spirit. The pace of cumulative rate action by global central banks have nearabout culminated, suggesting that the peak of rate hike cycle is here.

World GDP growth is expected to trickle down to 2.7% in 2024 as compared to 3.2% in 2023, as suggested by the IMF. Macro-economic headwinds of elevated inflation, tighter monetary conditions and dampening demand harbinger a possibility of a recession, especially led by AEs. With significant monetary tightening across central banks, we expect to see the impact of the rate hikes on inflation and growth in the medium term. US FED is expected to increase the key rate by another 25-50bps before concluding their rate hike cycle. On the other hand, BoE and ECB to continue their fight against inflation. As commodity prices plummet and demand conditions worsen, some of the atypical factors such as climate change, geopolitical tensions and related volatility are the risks which could play out on the inflation trajectory moving forward.

With heightened global economic uncertainty, India stands to showcase resilience underpinned by strong momentum in domestic demand, infrastructure spending and buoyancy in services sector.

India Economy grew more than expected at 7.2% y/y in FY23. Government's thrust on capex spending reflects in growth of fixed capital formation which mainly led to increase in growth in Q4; followed by private consumption. High frequency indicators in Q1FY24 continue to corroborate the underlying strength in the Indian economic activity with manufacturing PMI expanding to 3Y high in June'23, and passenger vehicles sales on a stronger footing denoting a healthy trend in urban consumption. India's Current Account Deficit (CAD) further narrowed in Q423, on normalising trade deficit. Consumer inflation is seen trending below 5% with lower food inflation and visible moderation in prices of clothing and footwear. We believe the Indian economy is well poised to anchor the inflationary expectations while showcasing resilient growth through FY24 as well.

Equity Market Outlook:

Global market sentiments improved during the quarter on the back of continued fall in headline inflation and the US Fed pausing interest rate hikes after 15 months in June 2023. While data points related to unemployment and consumer demand continue to be strong in major economies, impact of higher interest rate regime shall be watched out for during second half of the year. Prices of major commodities have already come down in expectation of slowing global growth and absence of stimulus from China yet. Amidst an uncertain global growth scenario which could induce volatility in global markets going ahead, outlook for Indian economy and equity markets remain positive. India stands out compared to its peers in Emerging Economies due to healthy macro fundamentals. As a result, equity markets have seen strong FII inflows over last few months. Despite the slowdown in the rural economy over last few quarters, robust demand is seen in pockets as evident from high frequency data such as personal loan growth, credit card spending, four-wheeler sales, passenger air traffic and growth in petrol/diesel consumption etc. Residential real estate demand continues to be strong despite rise in interest rates. Going ahead, consumer staples, two-wheelers, agrochemicals, and low-ticket consumer durables are likely to benefit from a rural turnaround in case of normal monsoons. Additionally, moderation in commodity prices should support margin expansion for consumer companies. Also, Government's strong capex push should support construction spending. Risks to our view from climatic conditions impacting monsoons and therefore kharif crop output.

Debt Market Outlook:

Debt Market was driven by tighter global monetary policies albeit at moderated pace, easing commodities and resilient economy in the past quarter.

FOMC slowed down the pace of monetary tightening by maintaining policy rates unchanged but guided towards 50bps higher terminal rates to take in to account reduced downside risks to the economy and upside risks to inflation. RBI also reciprocated by keeping Repo Rate steady at 6.50% but signalled towards tighter monetary conditions ahead to further curb inflationary pressures. Delayed monsoon is expected to have an impact on the Kharif crops sowing raising fears of higher food inflation.

Gsec yields eased in the last quarter post RBI's MPC pausing its monetary tightening cycle only to rebound towards the end after US FED indicating higher policy rates in future.

Going forward we expect RBI to continue with a prolonged pause in policy rates as domestic inflation and global monetary pressures may persist. Demand supply equation may keep the Gsec curve steepened above 10y and higher spreads may be witnessed in State government securities and corporate bonds.

- Chief Investment Officer



Key Fund Performance:

| Funds | 6 month | 1 year | 2 year | 3 year | 5 year | Since Inception |
|----------------------------------|---------|--------|--------|--------|--------|-----------------|
| Life Equity Fund 3 | 5.67% | 21.28% | 9.28% | 21.73% | 11.29% | 10.51% |
| Nifty 50 Index | 5.99% | 21.60% | 10.48% | 23.04% | 12.36% | 10.10% |
| Life Equity Fund 2 | 5.42% | 20.98% | 9.24% | 21.67% | 11.14% | 10.82% |
| Nifty 50 Index | 5.99% | 21.60% | 10.48% | 23.04% | 12.36% | 10.07% |
| Make In India Fund | 6.29% | 22.00% | 10.79% | 20.40% | 10.14% | 11.32% |
| Nifty 50 Index | 5.99% | 21.60% | 10.48% | 23.04% | 12.36% | 14.25% |
| Life Large Cap Equity Fund | 5.93% | 21.40% | 8.91% | 21.34% | n.a. | 12.12% |
| Nifty 50 Index | 5.99% | 21.60% | 10.48% | 23.04% | n.a. | 13.59% |
| Life Pure Equity Fund 2 | 7.69% | 21.49% | 13.78% | 22.38% | 12.73% | 10.35% |
| Benchmark | 4.63% | 18.10% | 12.48% | 22.07% | 12.29% | 9.67% |
| Life Infrastructure Fund 2 | 7.11% | 23.30% | 12.98% | 27.17% | 12.09% | 5.79% |
| Benchmark | -1.82% | 15.15% | 10.70% | 25.43% | 12.03% | 4.65% |
| Life Energy Fund 2 | 12.90% | 22.83% | 18.68% | 31.20% | 15.56% | 8.93% |
| Benchmark | -1.34% | 9.10% | 17.20% | 29.77% | 15.01% | 8.09% |
| Life Midcap Fund 2 | 13.09% | 33.92% | 15.91% | 33.80% | 14.00% | 12.61% |
| Benchmark | 15.71% | 38.77% | 16.40% | 35.24% | 15.86% | 10.13% |
| Life Balanced Fund 1 | 4.25% | 10.20% | 5.91% | 7.90% | 7.13% | 7.85% |
| Composite Benchmark* | 4.55% | 11.10% | 6.00% | 8.41% | 8.97% | 7.95% |
| Life Money Market Fund 1 | 2.70% | 4.92% | 3.63% | 3.16% | 2.60% | 5.85% |
| Crisil 91 day T bill Index; | 3.36% | 6.39% | 5.05% | 4.50% | 5.29% | 6.73% |
| Life Corporate Bond Fund 1 | 3.79% | 7.33% | 4.23% | 3.90% | 6.06% | 7.19% |
| Crisil Composite Bond Fund Index | 4.21% | 8.46% | 4.67% | 4.75% | 7.73% | 7.74% |
| Life Gilt Fund 1 | 3.73% | 8.08% | 3.93% | 3.76% | 6.99% | 6.70% |
| Crisil Dynamic Gilt Index | 4.43% | 9.20% | 4.64% | 4.33% | 7.71% | 8.06% |

* Composite Benchmark comprising of Crisil Composite Bond Index with 80% weight and Sensex 50 with 20% weight
As on 30-June-2023

Note – Returns more than 1 year are CAGR returns

Fund strategy and Positioning

Equity:

Progress of monsoon and revival in rural demand will remain key monitorable for Indian equities over the next 6 months. While green shoots of demand revival in rural are already visible, it could pick up pace with a good kharif output. Demand recovery could play out through the year as disinflation in commodity prices is passed on to consumers. Credit growth for banks and NBFCs remain robust as seen from the quarterly earnings. We remain constructive on sectors which benefit from domestic consumption and capacity creation. Sectors such as Banking and Financial services, Consumer Staples, Cement and Capital Goods should do well.

Our investment strategy is to remain overweight on our preferred sectors through companies with strong corporate governance and robust financials. We look for companies which enjoy moats in their business model with improvement in balance sheet and have meaningful earnings visibility over medium term. We actively monitor our portfolio positioning in accordance with our investment thesis.

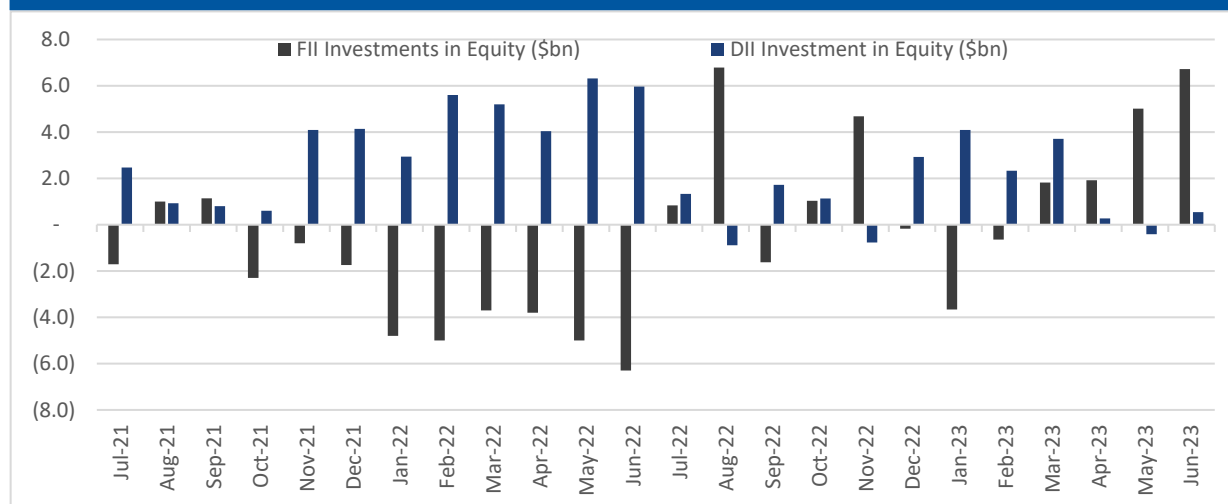
Indian Equity Market Performance

Index performance

| Return % | 3 Month | 6 Month | 1 Year |
|----------------------------|---------|---------|--------|
| Broad Based Indices | | | |
| Sensex | 11.7 | 5.9 | 22.0 |
| Nifty | 12.3 | 5.5 | 21.5 |
| Defty | 11.5 | 5.2 | 15.6 |
| BSE 100 | 13.0 | 5.8 | 21.9 |
| BSE 200 | 13.7 | 5.0 | 21.1 |
| BSE 500 | 14.3 | 5.7 | 22.0 |
| Nifty Junior | 7.4 | 3.5 | 19.3 |
| BSE Mid cap | 20.7 | 14.1 | 31.5 |
| NSE Mid cap | 20.1 | 14.0 | 34.1 |
| BSE Small cap | 22.6 | 13.6 | 30.8 |

| Return % | 3 Month | 6 Month | 1 Year |
|--------------------------------|---------|---------|--------|
| Sectoral Indian Indices | | | |
| Auto | 24.8 | 20.5 | 28.8 |
| Bankex | 11.6 | 2.7 | 32.1 |
| Capital Goods | 19.9 | 21.8 | 56.8 |
| Consumer Durables | 14.3 | 8.8 | 23.4 |
| FMCG | 14.6 | 15.6 | 35.5 |
| Health Care | 18.5 | 11.7 | 19.2 |
| IT | 7.6 | 4.0 | 4.6 |
| Metal | 7.8 | -1.0 | 29.3 |
| Oil & Gas | 6.1 | -10.7 | 0.7 |
| Power | 11.8 | -8.9 | -0.6 |
| PSU (State Owned Enterprises) | 14.3 | 8.0 | 33.3 |
| Realty | 36.4 | 21.7 | 34.0 |

Institutional flows



Source: NSE, BSE, Data as on 30th June, 2023

■ Fund Strategy and Outlook - Debt ■

■ Debt Fund Strategy and Positioning:

FOMC slowed down the pace of monetary tightening by maintaining policy rates unchanged but guided towards 50bps higher terminal rates to take in to account reduced downside risks to the economy and upside risks to inflation. Domestically delayed monsoon is expected to have an impact on the Kharif crops sowing raising fears of higher food inflation.

Higher than expected terminal policy rates in US and higher food inflation risks have developed pressure on domestic bond yields. Our Portfolios are positioned on the shorter & longer end of the curve being attractive at current juncture. We are underweight to Benchmark in terms of overall duration and increased exposure to high quality AAA corporate bonds in the shorter end and would tactically add State government securities at attractive spreads. 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 | 6.88 | -25 | 7.10 | -20 |
| 6M | 7.13 | -15 | 7.40 | -20 |
| 12M | 7.33 | -25 | 7.65 | -25 |

Note – Q-o-Q change is over Mar to Jun 2023

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 | 6.99 | -16 | 7.59 | -6 |
| 5Y | 7.08 | -11 | 7.60 | -10 |
| 10Y | 7.11 | -20 | 7.52 | -15 |

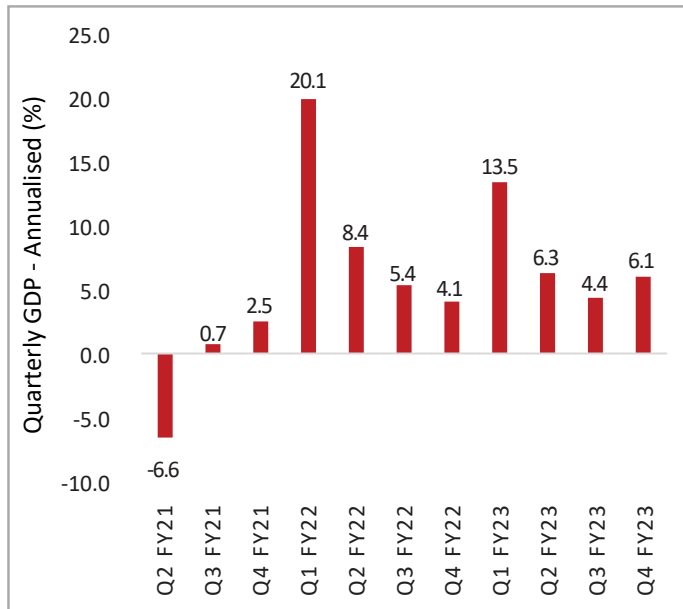
Note – Q-o-Q change is over Mar to Jun 2023

Data Source – Reuters, Bloomberg, CRISIL

Key Economic Indicators

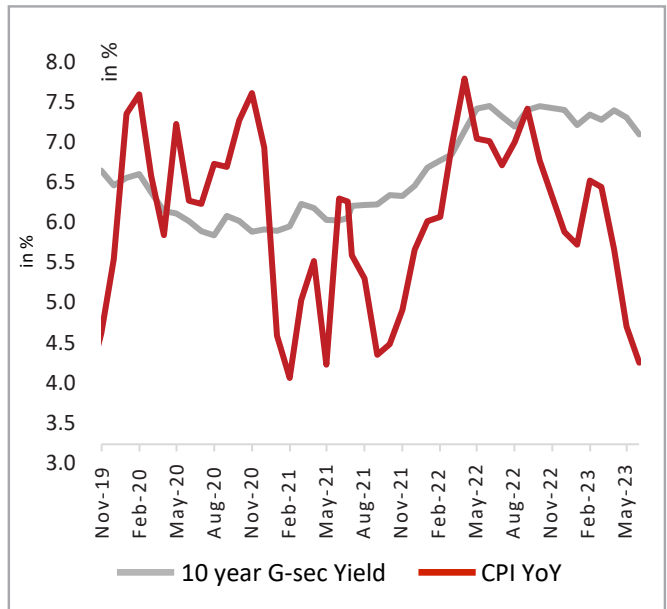
Other market and economic indicators:

Real GDP grew by 6.1% y/y in Q4 FY23, driven by increase in fixed capital formation.

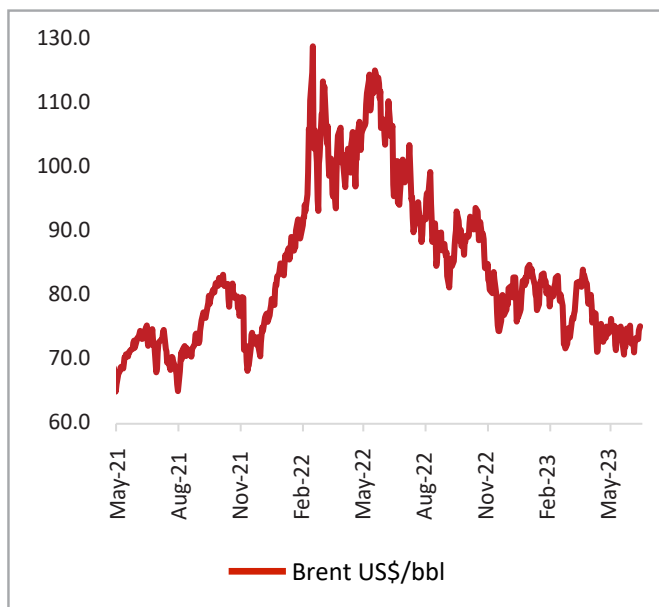


Source: Bloomberg, MOSPI, Reuters

CPI inflation moderated to 4.25% y/y in May-23, led by decline in the food basket. Core (ex food fuel) also moderated to 5.0% y/y

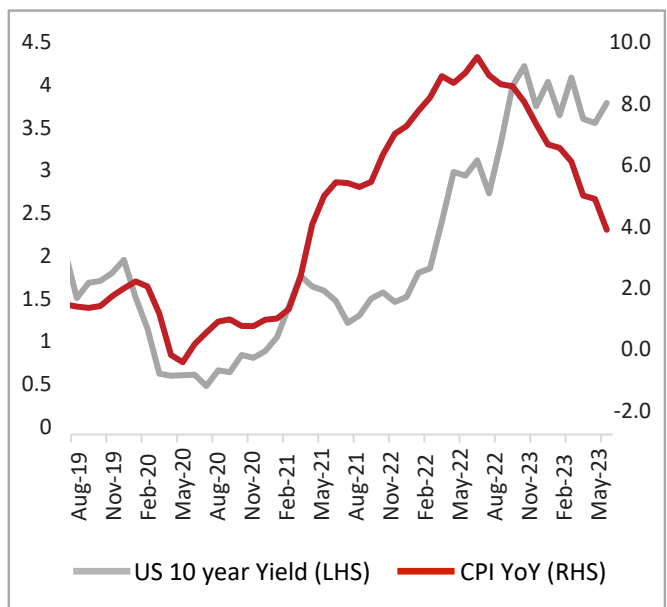


Brent Crude oil prices remained rangebound at the \$75 mark on expectations of weak global demand.



Source: Bloomberg, Reuters

US 10-year benchmark yield rose to 3.8% after a volatile quarter on expectations of further rate hikes on moderately easing inflation.



Key Economic Indicators

Other market and economic indicators:

| Economic indicators heat map | | | | | | | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Indicators | May-23 | Apr-23 | Mar-23 | Feb-23 | Jan-23 | Dec-22 | Nov-22 | Oct-22 | Sep-22 | Aug-22 | Jul-22 | Jun-22 | May-22 |
| Industrial Sector | | | | | | | | | | | | | |
| Manufacturing PMI | 58.7 | 57.2 | 56.4 | 55.3 | 55.4 | 57.8 | 55.7 | 55.3 | 55.1 | 56.2 | 56.4 | 53.9 | 54.6 |
| 8 Core Industries (YoY) | 4.3% | 4.3% | 3.6% | 7.4% | 9.7% | 8.3% | 5.7% | 0.7% | 8.3% | 4.2% | 4.8% | 13.1% | 19.3% |
| Rail Freight Traffic (Loading in million tonnes) | 134 | 126 | 145 | 124 | 134 | 131 | 123 | 119 | 116 | 119 | 122 | 126 | 132 |
| Rail Passenger Traffic (in million) | 589 | 548 | 583 | 537 | 575 | 563 | 570 | 552 | 548 | 540 | 516 | 501 | 501 |
| Consumer Economy | | | | | | | | | | | | | |
| Passenger Vehicle Sales in thousands | 288 | 331 | 292 | 292 | 298 | 235 | 276 | 291 | 307 | 281 | 294 | 276 | 251 |
| Two-Wheeler Sales in thousands | 1,472 | 1,339 | 1,291 | 1,130 | 1,184 | 1,045 | 1,236 | 1,578 | 1,735 | 1,557 | 1,381 | 1,309 | 1,253 |
| Tractor Sales in thousands | 91 | 87 | 93 | 69 | 73 | 79 | 78 | 132 | 125 | 65 | 67 | 107 | 94 |
| Domestic Air Passenger Traffic in thousands | 13,214 | 12,889 | 12,893 | 12,069 | 12,542 | 12,735 | 11,679 | 11,407 | 10,355 | 10,116 | 9,705 | 10,512 | 12,081 |
| Inflation | | | | | | | | | | | | | |
| CPI inflation, % y/y | 4.25% | 4.70% | 5.66% | 6.40% | 6.50% | 5.70% | 5.88% | 6.77% | 7.41% | 7.00% | 6.71% | 7.01% | 7.04% |
| WPI inflation, % y/y | -3.5% | -0.9% | 1.3% | 3.9% | 4.7% | 5.0% | 5.9% | 8.4% | 10.7% | 12.4% | 13.9% | 16.2% | 16.6% |
| Deficit Statistic | | | | | | | | | | | | | |
| Trade Balance, USD billion | -22.1 | -15.2 | -19.7 | -17.4 | -17.8 | -23.8 | -23.9 | -26.9 | -20.8 | -28.0 | -30.0 | -26.2 | -24.3 |
| Fiscal Deficit (Rs Billion) | 767 | 1,336 | 2,793 | 2,631 | 1,978 | 148 | 2,200 | 1,383 | 782 | 2,008 | 110 | 1,480 | 1,291 |
| GST | | | | | | | | | | | | | |
| GST collections (Rs Trillion) | 1.6 | 1.9 | 1.6 | 1.5 | 1.6 | 1.5 | 1.5 | 1.5 | 1.5 | 1.4 | 1.5 | 1.4 | 1.4 |

Source: Bloomberg, MOSPI, Reuters, S&P Global, PIB, CEIC, SIAM, TMA, DGCA, CGA

Key Economic Indicators

- India Manufacturing PMI expanded to 57.8 in June 2023 vs 56.4 in last quarter on robust new order inflows, robust business sentiment and higher output.
- Trade deficit increased sequentially in May-23 to USD 22.1bn vs 15.2bn in Apr'23 mainly on increase in non-oil, non-gold imports. Exports de-grew in y/y terms in trailing 3 months while remaining flat at ~\$35bn on account of weakening global demand conditions.
- GST collections consistently remain above Rs1.5tn mark along with healthy PV sales, reflecting robust domestic demand and economic activity.
- Overall Domestic High frequency indicators indicate growth in manufacturing sector and continued momentum in services sector.

| 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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