

## Gratuity Fund Performance Quarterly Fund Update, October to December '08

IN THIS POLICY, THE INVESTMENT RISK IN INVESTMENT PORTFOLIO IS BORNE BY THE POLICYHOLDER

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Dear Policyholder,

Season's Greetings and Best Wishes for the New Year!

As we embark on our journey for the year 2009 with optimism, I would like to share the stupendous success MetLife achieved in 2008. In spite of slowdown in the domestic markets last year and overall industry slowing by almost 40%, we have stood firm on the ground and continued the momentum of growth. For all of last year MetLife was consistently among the top three fastest growing insurance players in the country. We closed the year with Rs. 1153 crores of AFYP, which is a growth of 187% over the business we did in 2007.

The year 2008 was an extraordinary year with extraordinary events, not restricted to one country or a continent. Volatile stock markets, mounting debts and rising unemployment; sums up the year for us. To come out as winners in such circumstances, is indeed commendable and MetLife clearly emerged as one, not only in India, but internationally as well. As you may be aware, MetLife Inc has also been recognized as one of the strongest and the most stable financial institution in these times.

2009 looks exciting and challenging. I would like to reiterate here that life insurance is a lot about financial discipline and having a long term investment perspective. Such a scenario, begets a strong focus on responsible asset allocation rather than trying to time the market. Our capable fund management team follows sound investing principles and is committed to promoting high standards of investing in the industry. We will continue to invest your funds into a well diversified set of instruments to minimize the exposure to risks associated with individual scrips and sectors. You will be glad to know that at a broad level, our funds have performed better than the benchmarks.

At MetLife, we understand that you have several promises to keep with your loved ones. Our plans help you keep your promises. Thank you once again for your continued support to MetLife and hope to have a long and fruitful association.

Wish you and your families a Safe, Healthy, Happy and a Prosperous New Year.

Best Regards,

Rajesh Relan  
Managing Director  
MetLife India Insurance Company Limited

## EQUITY MARKET

### The Market that was...

2008 was a bad year for the equity markets with Nifty losing more than half its value during the year. Nifty fell by a steep 52.5% during the year while small and midcap stocks fell even more sharply. The sectors which underperformed significantly in 2008 were Real estate, Commodities and Industrials. The sectors which performed better were Consumers and Pharmaceuticals.

In 2008, the problems in US financial system and the recessionary environment in most developed economies led to sharp declines in most global equity markets. Indian markets were no exception and, by and large, mirrored the global trend.

The process of deleveraging with the global financial markets highlighted the dependence of many Indian corporates on foreign capital flow. FIs sold more than USD 13 bn during the year. This coupled with drying up of other flows led to a sharp 19% weakening in the Rupee during the year. The price of crude oil shot up in the first half of the year, only to fall very sharply in the second half.

In the Indian market, concerns on inflation have reduced, and the focus has shifted to growth of the economy. The GDP growth was expected to be over 8% for FY09; however this is likely to be around 7%. The interest rates in the economy are on a declining trend. Globally, the US and many other countries have launched fiscal stimulus plans to stabilise financial markets and re-ignite growth in their economies.

### Equity Market Outlook

The global financial markets continue to witness the process of de-leveraging. The effects of de-leveraging can be harmful for economies, especially in a recessionary environment. The US government has embarked on a large scale bailout program to improve the economic environment. Till markets get some sense of the full effect

of de-leveraging and the positive impact of the bailout packages, we believe that the current environment of uncertainty and cautiousness in the US will prevail.

In the domestic market, economic activity is slowing down as can be seen from various data points. The GDP growth for FY10 is likely to be in the range of 5% to 5.5%, which is much lower than the current year's growth rate. Earnings growth is also likely to be much slower. Till the uncertainty in global markets reduces, it is unlikely that India will see high quantum of FII flows. As a result, we feel that positive sentiments will return only after an improvement in the economic scenario.

However, we see a number of positives in the current situation. The foremost one being, that valuations seem to have factored in the slowdown, to a reasonable extent. Falling interest rates is another big positive. India's GDP growth of around 5% will still seem attractive in a scenario where many global economies are likely to contract. After the sharp fall in 2008, investors' expectations of investment returns have become quite moderate.

Rural India is relatively better off in the current environment, due to rising farm income and directed lending efforts. Companies that have a profitable and meaningful rural exposure might be outperformers in the current environment.

In the near term, quarterly numbers are likely to disappoint as will other monthly data points. The country faces parliamentary elections in the next few months and investors would like to see a stable government in place. In our opinion, the first half of the 2009 is likely to see markets trading in a broad range. Blue chip quality names are likely to outperform in the first half of 2009. The key risks, in our opinion, are renewed turbulence in US markets and a fractured, unstable mandate in the parliamentary elections.



## FIXED INCOME

### The Market that was...

Indicators	Sep-08	Dec-08	Q-o-Q Variation
10-year India (%)	8.62	5.25	-3.37
1 yr CD	12	8.3	-3.70
Exchange Rate (USD/INR)	46.99	48.78	1.79
Forex Reserves (USD bn)	291.82	254.05	-37.77
WPI Inflation (%)	12.14	6.38	-5.76
Reverse/ Repo (Rs Crores)	-90075	47350	137425
Brent Crude per/bbl	100.64	44.6	-56.04
10-year USA (%)	3.85	2.21	-1.64

Source: RBI WSS & Bloomberg

The softening of inflation and inflationary expectations has allowed RBI to focus on growth. The Central bank has been quite active in maintaining financial stability as the economy adjusts to a slowing growth cycle. RBI has taken note of the dynamic global financial condition, signs of a global recession, sharp declines in global stock markets, decline in WPI inflation and a moderation in global commodity prices.

In order to achieve the twin objective of domestic liquidity and growth, it has cut interest rates. CRR, repo rate and reverse repo rate have been cut by 350 bps to 5.5%, 250 bps to 6.5% and 100 bps to 5% respectively, since early October. The SLR has also been reduced to 24%. This has allowed banks to cut both lending and deposit rates.

The system turned from that of a liquidity crunch to that of ample liquidity, as RBI aggressively cut CRR and bought back Market Stabilisation Scheme (MSS) bonds to inject funds into the banking system. Liquidity continued to remain comfortable, despite of advance tax outflows in the month of December.

Easy liquidity conditions continued to support the money market, with yields in the money market instruments dropping by 360-380 bps. The aggressive rate cuts by RBI during the quarter, and expectations of further monetary policy actions, fuelled a record rally in bonds. The ten year G-Sec yield fell by a massive 337 bps and traded at 5.25% near end of December. Both gilts and corporate bonds performed well during the quarter, as the bond rally spread to all segments of the market.

Inflation continued to fall rapidly, with the WPI (Wholesale Price Index) declining to 6.38% for the week ended 20th December 2008. The fall in inflation was mainly due to a sharp decline in fuel price index, as the government announced a cut in petrol and diesel prices.

Compared to the September quarter, the aggregate foreign exchange reserves declined by USD 37.77 bn to end at USD 254.05 bn. Rupee ended significantly weaker at Rs 48.78/USD from Rs 46.99/USD in the last quarter.

### Global Backdrop

The world economy continued to struggle with growth in the aftermath of the credit crisis, and Central banks across the world continued to cut rates to support their flagging economies. In a surprise move, the Federal Reserve lowered its target rate to a range of zero to 0.25%, a record low, from 1%, and said that it was willing to keep rates low for an extended period of time. Central banks of UK, European Union, Japan and China also cut rates to historic lows.

### Fixed Income Market Outlook

The economic growth indicators worsened, with negative IIP numbers (-0.4%, yoy) in the month of October 2008, for first time in over 15 years. Exports growth continued to disappoint, showing negative growth for two months in a row (October and November) and imports also slowed down considerably. Inflation is expected to continue the falling trend primarily due to weakness in commodities, especially oil, and the slowing manufacturing sector.

We expect policy makers to remain active in stimulating growth. They are likely to cut rates and reserve requirements over the next few months. This is likely to further improve sentiments in the bond market.



## Unit-Linked Fund

### Gratuity Debt

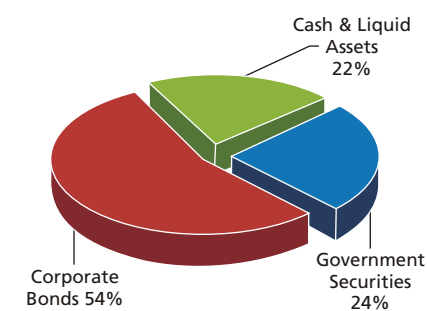
As on 31st December, 2008

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

### Asset Allocation Pattern

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

### Asset Mix



### Portfolio Returns

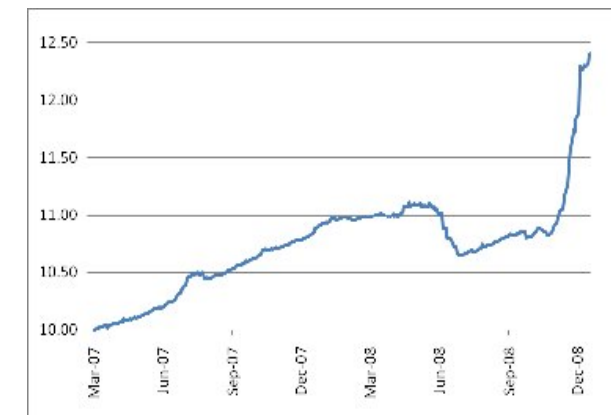
Returns	NAV	Benchmark
Last 1 Month Return	10.9%	6.0%
Last 2 Months Return	14.3%	7.4%
Latest Quarterly Return	14.3%	7.9%
Last 12 Months Return	14.4%	9.1%
CAGR since inception	12.7%	9.1%

Past performance is not indicative of the future performance

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

Security Type	Benchmark Index
Debt	CRISIL Composite Bond Fund Index

### NAV Movement since inception



(Date of Inception: 15-Mar-2007)

(Portfolio as on December 31, 2008)

Security	Wt (%)	Rating
<b>Debt</b>		
<b>Government Securities</b>	<b>24.2%</b>	
8.13% GOI OIL Bond 2021	0.3%	SOV
GOI LOAN 10.95% 2011	3.8%	SOV
GOI LOAN 7.38% 2015	0.0%	SOV
GOI 7.56% 2014	11.4%	SOV
GOI LOAN 7.95% 2032	2.5%	SOV
GOI 8.24% 2018	6.2%	SOV
<b>Electricity Distribution &amp; Generation</b>	<b>10.4%</b>	
NTPC	2.0%	AAA
RELIANCE ENERGY	0.4%	AAA
RURAL ELECTRIFICATION CORPORATION	8.0%	AAA
<b>Housing Finance</b>	<b>4.1%</b>	
HDFC	4.1%	AAA
<b>NBFC</b>	<b>24.8%</b>	
CITIFINANCIAL CONSUMER FINANCE	1.3%	AA+
M & M FINANCIAL SERVICES	0.7%	AA+
GE MONEY FINANCIAL	1.1%	AAA
L & T FINANCIAL	0.6%	CAREAA+
IDFC	12.9%	AAA
POWER FINANCE CORPORATION	6.3%	AAA
IL & FS	2.0%	LAAA
<b>Banking Services</b>	<b>10.5%</b>	
ICICI BANK	2.0%	AAA
EXIM Bank	8.5%	AAA
<b>Refinery</b>	<b>4.4%</b>	
RELIANCE INDUSTRIES	4.4%	AAA
<b>Total Corporate Debt</b>	<b>54.2%</b>	
<b>Cash and Equivalents</b>	<b>21.6%</b>	
<b>Grand Total</b>	<b>100.0%</b>	



## Unit-Linked Fund

### Gratuity Balanced

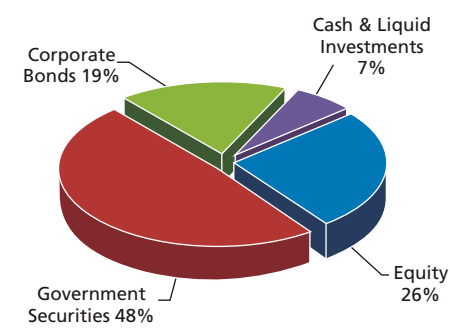
As on 31st December, 2008

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

#### Asset Allocation Pattern

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

#### Asset Mix



#### Portfolio Returns

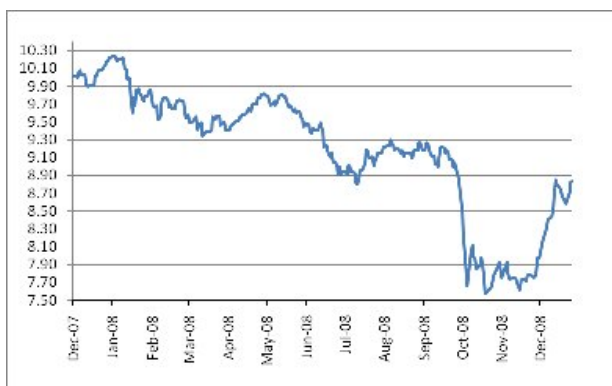
Returns	NAV	Benchmark
Last 1 Month Return	13.4%	6.5%
Last 2 Months Return	13.6%	6.0%
Latest Quarterly Return	-2.3%	-1.9%
<b>Last 12 Months Return</b>	<b>-12.8%</b>	<b>-9.2%</b>
<b>CAGR since inception</b>	<b>-11.0%</b>	<b>-7.7%</b>

Past performance is not indicative of the future performance

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

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

#### NAV Movement since inception



(Date of Inception: 06-Dec-2007)

(Portfolio as on December 31, 2008)

Security	Wt (%)	Rating
<b>Debt</b>		
<b>Government Securities</b>	<b>48.5%</b>	
7.95% GOI FERTILISER BOND 2026	36.3%	SOV
GOI 8.24% 2018	9.7%	SOV
GOI LOAN 10.25% 2021	2.5%	SOV
<b>Electricity Distribution</b>	<b>0.1%</b>	
RELIANCE ENERGY	0.1%	AAA
<b>Housing Finance</b>	<b>6.5%</b>	
HDFC	3%	AAA
LIC Housing Fin	4%	AAA
<b>NBFC &amp; Bank</b>	<b>4.9%</b>	
CITIFINANCIAL CONSUMER FINANCE	0.5%	AA+
GE MONEY FINANCIAL	0.3%	AAA
Power Finance Corporation	4.2%	AAA
<b>Banking Services</b>	<b>7.2%</b>	
EXIM Bank	6.9%	AAA
ICICI BANK	0.3%	AAA
<b>Total Debt</b>	<b>67.3%</b>	
<b>Equity</b>		
<b>Aluminium</b>	<b>0.0%</b>	
HINDALCO LTD	0.0%	
<b>Automobile</b>	<b>0.8%</b>	
MARUTI SUZUKI INDIA LIMITED	0.2%	
TATA MOTORS LIMITED	0.0%	
MAHINDRA & MAHINDRA LTD	0.1%	
HERO HONDA MOTORS LIMITED	0.5%	
<b>Banking Services</b>	<b>3.6%</b>	
ICICI BANK LTD	0.8%	
STATE BANK OF INDIA	1.2%	
HDFC BANK LTD	0.9%	
PUNJAB NATIONAL BANK	0.7%	
<b>Cement</b>	<b>0.1%</b>	
AMBUJA CEMENT LTD	0.0%	
ACC	0.0%	
<b>Copper &amp; Copper Products</b>	<b>0.2%</b>	
STERLITE INDUSTRIES	0.2%	
<b>Crude Oil</b>	<b>2.9%</b>	
OIL AND NATURAL GAS	1.8%	
CAIRN INDIA LTD	1.1%	
<b>Diversified</b>	<b>2.2%</b>	
HINDUSTAN UNILEVER LTD	1.1%	
GRASIM INDUSTRIES LTD	0.2%	
ITC LTD	1.0%	
<b>Electricity Distribution &amp; Generation</b>	<b>2.5%</b>	
TATA POWERS LTD.	0.2%	
RELIANCE INFRASTRUCTURE LTD	0.2%	
NTPC	1.7%	
POWER GRID CORPORATION	0.4%	
<b>Electrical Equipments</b>	<b>0.2%</b>	
ABB LTD	0.2%	
<b>Housing Finance</b>	<b>0.7%</b>	
HDFC	0.7%	
<b>Information Technology</b>	<b>2.1%</b>	
INFOSYS TECHNOLOGIES	1.4%	
TATA CONSULTANCY LTD.	0.2%	
WIPRO	0.1%	
HCL TECHNOLOGIES LIMITED	0.1%	
SATYAM COMPUTER SERVICES LIMITED	0.2%	
<b>Media &amp; Broadcasting</b>	<b>0.1%</b>	
ZEE ENTERTAINMENT ENTERPRISE	0.1%	
<b>Pharmaceuticals</b>	<b>0.5%</b>	
SUN PHARMACEUTICALS INDUSTRIES LTD	0.3%	
DR. REDDYS LABORATORIES LTD	0.2%	
RANBAXY LABORATORIES LTD.	0.1%	
<b>Prime Movers</b>	<b>1.2%</b>	
BHEL	1.2%	
<b>Refinery</b>	<b>3.1%</b>	
RELIANCE INDUSTRIES	2.4%	
RELIANCE PETROLEUM LIMITED	0.7%	
<b>Steel</b>	<b>0.8%</b>	
SAIL	0.5%	
TATA IRON AND STEEL	0.3%	
<b>Telecommunication</b>	<b>2.9%</b>	
BHARTI TELEVENTURES LTD	2.2%	
RELIANCE COMMUNICATIONS LIMITED	0.5%	
TATA COMMUNICATIONS LTD	0.1%	
DEA CELLUAR LIMITED	0.2%	
<b>Turnkey Projects</b>	<b>1.7%</b>	
LARSEN & TOUBRO LTD	1.7%	
<b>Trading</b>	<b>0.3%</b>	
GAIL (INDIA) LTD	0.3%	
<b>Total Equity</b>	<b>26.1%</b>	
<b>Cash &amp; Other Liquid Assets</b>	<b>6.7%</b>	
<b>Grand Total</b>	<b>100.0%</b>	