

Reliance Close Ended Equity Fund II – Series A





(A Close Ended Equity Oriented Scheme)

NFO Opens: 09th May 2014
NFO Closes: 23rd May 2014

During NFO Units offer at Rs. 10/- Per unit
(Tenure – 5 Years from the date of allotment)

Offer for Sale of units at Rs.10/- per unit during the new fund offer period. Tenure is 5 years from the date of allotment

Product Label

This product is suitable for investors who are seeking*:				
· Long term capital growth				
· Investment in diversified portfolio of equity & equity related instruments with small exposure to fixed income securities.				
· High risk.			(BROWN)	
*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.				
Note: Risk is represented as:				
	(BLUE) Investors understand that their principal will be at low risk		(YELLOW) Investors understand that their principal will be at medium risk	 (BROWN) Investors understand that their principal will be at high risk

Why Equities?

Investing into equities is akin to taking indirect ownership in the underlying companies and benefiting from the growth in the economy. Equity as an asset class is known for higher risk and to generate relatively higher returns over a period of time. The asset class is known to create wealth for investors. Consider the performance of the S&P BSE 200, for instance. The index has generated the following returns as on 30th April 2014*:

Index Name	1 Year	3 Years	5 Years	Since Inception*
S&P BSE 200	12.52	4.37	14.93	13.82

Past performance may or may not be sustained in future.

*Note: The returns are compounded annualized. As the index values are available from 02 Jan 1991, the inception date is taken as 02 Jan 1991 for the above calculations.

Source: MFI

Why Now?

➤ Changes in Macro Environment

There has been a significant change in the macro environment over the last 1 year:

	March 2014	March 2013
Current Account Deficit	Less than 1%	More than 5%
Inflation	Less than 5%	More Than 9%
Rs/\$	60 (Mar-2014) & weak outlook for \$	Touched 68 (Sep-2013) with weak outlook
Government Policies	1.) Several pending policies cleared 2.) Expectation of strong government	Policy Log Jam
Divestment	~20,000 crore of divestment done	Looked very unlikely
Spectrum Sales	Successful	Looked unlikely
Corporate Results	Dec-2013 marginally higher than expectations	Disappointed
Global Outlook	Markets remain strong despite 3 QE tapering steps	Fears of QE tapering, fiscal cliff etc.
FII Inflows	Decisively strong	Indecisive & weak
Returns	1) Higher Equity Returns* 2) Alternatives like real estate and gold remain weak 3) Fixed income only other viable option	1) Low Equity returns* 2) Other asset classes doing well

Source: Bloomberg, RBI, RMF Internal Research

*based on 1 year return of S&P BSE Sensex as of March 31, 2014 and March 31, 2013 respectively.

➤ Reasonable Valuations

There has been a significant run up in the stock market in the last few months. However, there are several companies with sound fundamentals which are available at attractive valuations. From Price/Book Value perspective, 46% of companies are traded at P/BV of 1 or less. In terms of PE, 50% of companies in the universe[^] are traded at PE of less than 10x on Trailing Twelve Months Earnings.

Source: Bloomberg, RMF Internal Research.

[^]universe of 770 companies with a market capitalization of Rs. 100 & above.

With a view to capture some of these opportunities, we are launching Reliance Close-ended Equity Fund II – Series A which will endeavor to gain from the enormous opportunity in the market, where solid businesses with well established track record are available for attractive valuations.

The Fund will attempt to identify 'Growth stocks available at Value Prices'. i.e., attempt to invest into solid businesses, which offer huge growth potential and yet not being favored by the market due to the near term challenges. Such stocks offer potential both in terms of PE (Price Earnings) improvement and growth in EPS (Earnings per Share), leading to possible multiplication of the stock price and therefore, wealth creation for investors.

The Fund would endeavor to capitalize on both P/E re-rating and growth potential. The longer time horizon of 5 years would help to capture P/E re-rating and earnings growth.

Why Close Ended?

Close-ended format would allow the portfolio manager the flexibility to execute the strategies effectively over the chosen time frame - in this case, over 5 years. Further, the portfolio could be constructed based on the market merits, without possibly getting impacted by external flows. Close-ended funds may also allow fund managers to take concentrated positions in stocks / sectors and possibly offer portfolio that may be distinct and unique from other open-ended funds.

Framework of the Fund

The Fund Endeavors to invest into companies with:

- ✓ Solid businesses available at reasonable valuations
- ✓ Sustainable business characteristics with 10-20 year operational track record which are at an inflexion point to scale up
- ✓ Currently high ROE or rising ROE's
- ✓ Ability to generate sustainable free cash flows
- ✓ High operating leverage not getting captured in today's valuations

Fund Strategy

1. **Scalable Opportunities** - Long Term Growth Prospects undermined due to near term challenges
Currently, these are nascent in India but are large globally and offering relatively large potential for scaling up in the future.
For example: Insurance, Media, Hospitals, Retail & Franchising and Internet Business
2. **Contra Strategy** – Sustainable business models ignored currently
Companies which are leaders in their segments i.e. top 2-3 companies
Companies which have had 15-20 years of listed history
Companies with low near term visibility & hence low expectations and lack of street coverage
3. **Established Businesses at Discounted Valuations**
Companies which are unduly impacted by non-fundamental reasons and offering attractive investment opportunities
For example: Mandatory offer for sale, Divestment by government

Mutual Fund

4. **Corporate Action Candidates** - Companies which are potential beneficiaries of corporate actions such as merger, buy back, etc
For example: Several MNC's have increased stake in their Indian subsidiaries at valuations which are 2x-3x the current valuations.

Criteria for Portfolio Selection

- ✓ Companies with no balance sheet stress
- ✓ Currently high ROE or Rising ROE's
- ✓ Ability to reinvest in business and gain market share
- ✓ Significant Cash on books

Key Differentiators of the Fund

- Fund will make an effort on owning stocks as businesses and valuing them for their "absolute return" potential
- Focus will be on quality companies with long track record currently beaten down due to lack of participation, lack of research, low near-term expectation & other non-fundamental reasons
- Strategy of the fund will be not to completely mirror the benchmark
- Fund will endeavor to invest across market caps and will be well diversified as many sectors/stocks trading below fair value
- Fund would endeavor to declare dividend as and when opportunity arises

Scheme Features

Type of Fund	Close Ended Equity Oriented Scheme
Investment Objective	The investment objective of the scheme is to provide capital appreciation to the investors, which will be in line with their long term savings goal, by investing in a diversified portfolio of equity & equity related instruments with small exposure to fixed income securities. Although, the objective of the Fund is to generate optimal returns, the objective may or may not be achieved.
Plans & Options	Direct Plan: Growth Option Dividend Payout Option Other than Direct Plan: Growth Option Dividend Payout Option
Tenure	5 Years from the date of allotment
Minimum Application Amount	Rs 5000 and in multiples of Re 1 thereafter
Listing	To be Listed on Bombay Stock Exchange Ltd (BSE)
Load Structure	Entry Load – Not Applicable & Exit Load – Not Applicable Since the scheme shall be listed on BSE Exit load shall not be applicable.
Benchmark	S&P BSE 200 Index
Fund Manager	Sailesh Raj Bhan

Why Reliance?

At RMF, we have one of the largest equity research teams on the buy side in India. Our fund management & research team have a cumulative experience of more than 300 years in Indian Equity Markets with over 100 years of working with the firm.

The equity investment team is sub divided as per in-house specialties in Sectors and Companies, Quantitative Analysis, Economics and Macro & Technical Analysis to cover all the key areas. Currently, there are over 460 companies under coverage with ~200 companies tracked internally. For providing research assistance, there is partnership with ~30 brokerage houses and 3 independent research firms. Well-developed Information Systems, robust processes and proprietary Knowledge Management System are used extensively to track and analyze data, both on domestic and international markets.

The experienced team has seen several market cycles and demonstrated strong alpha creation over a period of time. RMF has a track record of creating wealth for investors for over 18 years, primarily through alpha creation by following a bottom-up strategy of stock picking.

Scheme Specific Risk: Trading volumes and settlement periods may restrict liquidity in equity and debt investments. The investments in debt instruments carry various risks like interest rate risk, liquidity risk, credit risk, reinvestment risk, risk associated with derivatives, risk associated with listing of units etc. For detail scheme/securities related risk factors refer Scheme Information Document.

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