# SBI Inflation Indexed Bond Fund

**an open-ended debt scheme**

<table>
<thead>
<tr>
<th>New Fund offer opens</th>
<th>New Fund offer closes</th>
<th>Scheme Re-opens on or before</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 17, 2014</td>
<td>October 31, 2014</td>
<td>November 18, 2014</td>
</tr>
</tbody>
</table>
This product is suitable for investors who are seeking*:

- Long Term Capital appreciation
- Investment predominantly in inflation indexed Securities issued by Central Government, State Government and / or Corporate Issuers
- Medium Risk.  

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Note: Risk may be represented as: Investor understand that their principal will be at

- Low risk(Blue)
- Medium Risk(Yellow)
- High Risk(Brown)
Flow of the presentation

- About Inflation
- Impact of inflation on savings
- Protection against inflation
- Inflation Indexed Bonds
- SBI Inflation Indexed Bond Fund
- About investment team & SBI Funds Management Private Limited
- Disclaimer
About Inflation
About Inflation

- General price levels of goods and services increases with time

- Higher the inflation, higher the amount of money that we require to purchase the same goods and services in future.

- Inflation depletes the value of money that you have today. The illustration below shows the real future value of Rs. 100.

![Graph showing the impact of inflation on the future value of money]

- Investors across the globe protect the value of their money by investing in asset classes that can beat inflation.
• India is an emerging economy with consistent high levels of inflation.

• High growth is very likely accompanied with supply demand imbalance, hence high inflation.

• Despite significant efforts of RBI and government, there is still a risk that inflation may not fall below 5% - 6% on a sustainable basis, that is still high from global perspective.

Dara Source: RBI
Impact of inflation on savings
Real vs. Nominal Returns

Are you happy with 9% before tax nominal returns on your fixed deposits?

Do you know that you can buy even lesser goods and services in the future with same money that you have today?

Do you know that inflation is eating away your savings?

Are you aware how much real money have you made (or may be lost) on your past investments?

Real Returns = Nominal Returns – Inflation

Do you know that many investors end up loosing money in after tax real terms on their fixed deposit investments?
How inflation is pecking on your savings?

Do you know that many investors end up loosing money in after tax real terms on their fixed deposit investments?

For instance, if the post-tax return on a bank fixed deposit is 7 per cent and inflation is at 9 per cent, the real return is a negative 2 per cent.

A summary of the after tax real rate of return for various combinations of nominal before tax returns, rate of inflation and rate of taxation is provided here.

<table>
<thead>
<tr>
<th>Nominal before tax return on investment</th>
<th>Rate of Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7%</td>
</tr>
<tr>
<td>10%</td>
<td>1.8%</td>
</tr>
<tr>
<td>9%</td>
<td>1.0%</td>
</tr>
<tr>
<td>8%</td>
<td>0.2%</td>
</tr>
<tr>
<td>10%</td>
<td>0.9%</td>
</tr>
<tr>
<td>9%</td>
<td>0.1%</td>
</tr>
<tr>
<td>8%</td>
<td>-0.6%</td>
</tr>
<tr>
<td>10%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>9%</td>
<td>-0.7%</td>
</tr>
<tr>
<td>8%</td>
<td>-1.4%</td>
</tr>
</tbody>
</table>

* Tax rate plus 3% cess.
How inflation is pecking on your savings?

Real returns from representative indices have been mostly low or negative.

Real returns measured against WPI Index as on 31st August 2014.

**Past performance may or may not be sustained in future**
Protection against inflation
Options to protect savings against inflations

<table>
<thead>
<tr>
<th>Equities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Higher risk of capital</td>
</tr>
<tr>
<td>• High volatility of returns</td>
</tr>
<tr>
<td>• Correlation with inflation is not certain</td>
</tr>
<tr>
<td>• Low or negative correlation to inflation during times of very high or very low inflation.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Real Estate</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Higher risk of capital</td>
</tr>
<tr>
<td>• High volatility of returns</td>
</tr>
<tr>
<td>• High capital requirement: difficult to achieve diversification</td>
</tr>
<tr>
<td>• Majority of household asset are already concentrated in real estate.</td>
</tr>
<tr>
<td>• Does not protect during deflation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Commodities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• High volatility of returns</td>
</tr>
<tr>
<td>• Limited ways of investment</td>
</tr>
<tr>
<td>• Majority of household asset are already concentrated in gold.</td>
</tr>
<tr>
<td>• Does not protect during deflation</td>
</tr>
</tbody>
</table>

And now

**Inflation Indexed Bonds**

Risk averse investors cannot invest their most savings in risky asset classes
Inflation Indexed Bonds
What are Inflation Indexed Bonds?

- Inflation indexed bonds (IIBs) are designed to protect savings from rising prices (inflation).

- IIBs have fixed real coupon rate, but a nominal principal value that is adjusted for inflation. Hence protection on both principal and interest.

- IIBs are protected against loss of capital (repayment of original investment or revised inflation linked principal, whichever is higher)

- Government of India issued the first Inflation Indexed Bonds (IIBs) in 2013.

<table>
<thead>
<tr>
<th>Features of recently issued Govt. IIB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Security Name</td>
</tr>
<tr>
<td>Underlying Inflation Index</td>
</tr>
<tr>
<td>Tenure</td>
</tr>
<tr>
<td>Coupon Rate</td>
</tr>
<tr>
<td>Current Real Yield</td>
</tr>
</tbody>
</table>

- Government further plans to issue CPI based IIBs.

- Companies also issue attractive inflation linked bonds from time to time.

Source of real yield: CCIL, NDS
How does Inflation Indexed Bonds work?

Assume an IIB issued at par with a real coupon rate of 1.5% with annual coupon payment

First Coupon Payment:
Principal amount = 100 * (1+inflation*) = Rs. 106.00
Coupon amount = 106 * 1.5% = Rs. 1.59

Second Coupon Payment:
Principal amount = 106 * (1+inflation*) = Rs. 112.36
Coupon amount = 112.36 * 1.5% = Rs. 1.69

Third Coupon Payment:

Fourth Coupon Payment:

Fi.

Last Coupon Payment (10th payment):
Principal amount = 100 * (1+inflation)^10 = Rs. 179.08
Coupon amount = 179.08 * 1.5% = Rs. 2.68

Both principal and coupon amounts are adjusted for inflation

* Assuming 6% rate of inflation (WPI)
Inflation Indexed Bonds Globally

US Treasury Inflation Protected Securities (TIPS)

• US TIPS were introduced in 1997
• Approximately $800 billion in debt outstanding
• Widely popular instruments across investors for risk averse portfolios
• Based on US CPI (Consumer Price Index) index
• TIPS are currently offered in 5, 10 and 30 year maturities

Other major markets with successful inflation protected securities are

France, United Kingdom, Italy, Korea, Japan, Australia, Mexico, Germany, Israel, Brazil and many others.

So, why should Indian investors let this opportunity go?
At current 4% real interest rates, Indian IIBs are better than the IIBs of most of the other countries.

Data Source: Bloomberg, CCIL & NDS Data as on October 09, 2014
Why Inflation Indexed Bonds?

• No risk of inflation; only risk of movement in “real interest rates”

• No credit risk on government IIBs

• Downside protection at the level of original investment

• Diversification of portfolio with a low correlation asset class of inflation linked securities.
Why now?

• With Inflation linked securities, every time is a right time

• Irrespective of the level of inflation and interest rates, IIB’s always provides a fixed real return.

• Asset classes goes in or out of favour in capital markets. However the goal of risk averse investors remain the same: protection against real loss of value.

• IIBs provide growth of real value with protection of capital should always remain suitable.

• Current real yield of 3.90% - 4.00% on IIBs; assuming WPI inflation at 5.00% implies a nominal yield of 8.90% - 9.00% (3.90% - 4.00% real yield + 5.00% WPI inflation)

• The nominal yield on same residual maturity 10 year Gsec instruments in 8.40% - 8.50%.

• There is a clear case for IIBs in the portfolio.

Source of real yield: CCIL,NDS
Assumptions:
Security - 1.44% Inflation Indexed GS
Coupon – 1.44% payable half-yearly
Inflation rate – Actual WPI

This is an illustration only to show the performance of the inflation indexed security for different periods ending on August 2014. **Past performance may or may not be sustained in future.**

WPI Source: RBI
Current real yield of 3.90% - 4.00% on IIBs; assuming WPI inflation at 5.00% implies a nominal yield of 8.90% - 9.00% with 1.44% semi-annual coupon payments.

However, the expected yield from the securities would vary under different scenarios of initial purchase price and inflation over the tenure.

<table>
<thead>
<tr>
<th>Bond Prices (Rs.)</th>
<th>Expected Inflation (WPI)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4%</td>
</tr>
<tr>
<td>80</td>
<td>8.4%</td>
</tr>
<tr>
<td>85</td>
<td>7.6%</td>
</tr>
<tr>
<td>90</td>
<td>6.8%</td>
</tr>
<tr>
<td>95</td>
<td>6.2%</td>
</tr>
<tr>
<td>100</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

The price of the securities will be adjusted in the market under different scenarios of the inflation to provide a reasonable level of real yield.

This is an illustration only to show the performance of the inflation indexed security under different scenarios. Actual performance may differ on account of various reasons.
Protect your savings from inflation with

SBI Inflation Indexed Bond Fund
## Product Summary: SBI Inflation Indexed Bond Fund

<table>
<thead>
<tr>
<th><strong>Fund Structure</strong></th>
<th>An open ended debt scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment Objective</strong></td>
<td>The investment objective of the scheme is to generate capital appreciation and income through investment in inflation indexed Securities. However there is no guarantee or assurance that the investment objective of the scheme will be achieved.</td>
</tr>
<tr>
<td><strong>Plans/Options</strong></td>
<td>The scheme would have two plans viz. Direct Plan &amp; Regular Plan. Both plans would offer Growth and Dividend options. Dividend option will have the facility of Reinvestment, Payout &amp; Transfer</td>
</tr>
<tr>
<td><strong>Minimum Application Amount</strong></td>
<td>Rs. 5000/- and in multiples of Re. 1 thereafter</td>
</tr>
<tr>
<td><strong>Benchmark Index</strong></td>
<td>I-Sec Composite Index</td>
</tr>
<tr>
<td><strong>Fund Manager</strong></td>
<td>Mr. Dinesh Ahuja</td>
</tr>
</tbody>
</table>
SBI Inflation Indexed Bond Fund

**Investment Strategy**

- The fund seeks to actively manage a portfolio of predominantly inflation linked bonds (IIBs) to provide an inflation adjusted return whilst maintaining a balance between liquidity and profitability of the investments.
- Portfolio will be constructed using a combination of strategies like yield curve positioning, duration and other tactical strategies.

**Asset Allocation**

<table>
<thead>
<tr>
<th>Instruments</th>
<th>Indicative allocations$ (% of total assets)</th>
<th>Risk Profile</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Minimum</td>
<td>Maximum</td>
</tr>
<tr>
<td>Inflation Indexed Securities#</td>
<td>70</td>
<td>100</td>
</tr>
<tr>
<td>Debt* and Money market instruments/ units of debt &amp; liquid mutual funds</td>
<td>0</td>
<td>30</td>
</tr>
</tbody>
</table>

The cumulative gross exposure through Inflation indexed Securities, debt (including Money Market Instrument /Units of debt & liquid mutual funds) and derivative position will not exceed 100% of the net assets of the scheme.
*Exposure to domestic securitized debt may be to the extent of 20% of the net assets.
The Scheme shall not invest in ADR/ GDR/ Foreign Securities / foreign securitized debt.
$ Exposure to derivatives may be to the extent of 30% of the net assets. Exposure to derivatives will be from the allocation to debt and money market instruments other than inflation index securities.
# Securities includes inflations indexed bonds. It may also include inflation indexed money market securities if and when approved by RBI / SEBI.
The Scheme shall not engage in Stock lending. The Scheme shall not invest in equity linked debentures.
The Scheme shall not invest in repo in corporate debt.
# Why should an Investor Invest?

<table>
<thead>
<tr>
<th><strong>Earn positive real yield:</strong></th>
<th>The inflation indexed securities provide relatively consistent real returns by indexing both the principal and coupon payments for inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Protection against inflation:</strong></td>
<td>High levels of prevailing inflation in India discourage investors to invest in fixed income securities. However with IIBs investors may protect their financial assets against inflation.</td>
</tr>
<tr>
<td><strong>Low risk:</strong></td>
<td>No credit/ default risk on IIBs issued by government</td>
</tr>
<tr>
<td><strong>Diversification:</strong></td>
<td>Low correlation with other asset classes provides value through diversification of the portfolio</td>
</tr>
<tr>
<td><strong>Market Opportunity:</strong></td>
<td>The present market situation also presents an arbitrage opportunity to the fixed income investors to earn a better yield on IIBs with respect to Gsec instruments.</td>
</tr>
<tr>
<td><strong>Experience:</strong></td>
<td>SBI Mutual Fund has an experience of over 25 years in managing asset across market cycles, asset classes and styles</td>
</tr>
</tbody>
</table>
Navneet joined SBIFM as Chief Investment Officer in 2008. Navneet is responsible for overseeing investments across asset classes worth over $12 billion. His prior stint was with Morgan Stanley Investment Management as Executive Director and Head- multi strategy boutique. Prior to that, Navneet was the Chief Investment Officer - Fixed Income and Hybrid Funds at Birla Sun Life Asset Management Company Ltd. Navneet had been associated with the financial services business of the Birla group for 14 years and worked in various areas such as fixed income, equities and foreign exchange. Navneet holds masters in accountancy and business statistics from the University of Ajmer and is a Chartered Accountant from ICAI. He is a charter holder of the CFA Institute USA and CAIA Institute USA. He is also an FRM charter holder of Global Association of Risk professionals (GARP).

Dinesh has over 16 years of industry experience. Dinesh Ahuja joined SBIFM in 2010. Prior to joining SBIFM, Dinesh was a portfolio manager at L&T Asset Management and Reliance Group for four years. Dinesh started his career in 1998 as a fixed income dealer on the sell side. Thereafter he worked in leading broking outfits for eight years before moving on the buy side in 2006. Dinesh is a Commerce graduate and holds his Masters degree in Finance from Mumbai University.
India’s premier and largest bank with over 200 years experience (Estd: 1806)
- Asset base of USD 399 bn*
- Pan-India network of ~22,635 branches and ~50,000 ATM’s as at end of June 2014
- Servicing over 256 million customers

Global leader in asset management
- Backed by Credit Agricole and Société Générale
- More than 2,000 institutional clients and distributors in 30 countries
- Over 100 million retail clients via its partner networks
- € 796.5 bn AuM as at end of March 2014

*Source: SBI Analyst Presentation as on end March 2014
Established in 1987: A leading asset manager in India

- Expertise in managing assets across mutual funds, segregated managed accounts, domestic advisory and offshore advisory business
- Multiple asset classes ranging from equities and debt, money market to ETFs and structured funds
- Investment team of 33 professionals with strong track record
- Broad customer base with ~ 4 million folios related to individual, corporate and institutional investors

Source: SBI Funds Management Private Limited
AAUM for the quarter ending on September 30, 2014
Expertise

- Highly experienced team
- Strong industry relations
- Complete in-house research

Processes

- Structured & Disciplined
- Rigorous investment templates
- Agility with Flexibility

Risk Management

- Six member independent team
- International standards
- Coherent monitoring

Group Advantage

- 25 years of experience
- Both domestic and international strengths
- Investors trust
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**Mutual Fund investments are subject to market risks, read all scheme related documents carefully.**
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