

SBI One India Fund (SOIF)

Old wine in new bottle

8th December 2006

As we all know, India is a land of social, cultural and economic diversity, comprising four regions of the East, North, South and West, each of which has its traditional economic strengths. For example, the Eastern region is rich in mineral resources like iron ore, coal and alumina and the Southern states are the traditional strongholds of the Information Technology industry. Also, the Western region has a foothold in Petrochemical complexes that have developed near ports such as Jamnagar, Haldia and Mangalore, while the auto and auto ancillary industry has thrived in and around the Northern and Western regions.

Thus, availing of the attractive investment opportunity offered by the country in all its four regions, SBI Mutual Fund has launched a region-specific fund, SBI ONE INDIA FUND (SOIF), which would try to identify and profit from attractive investment opportunities that emanate from each of the four regions of the country.

SBI MF believes that India, with its regional economic strengths, would provide the Fund with an alternate investment approach, whereby, portfolio diversification can be achieved through a region-specific approach. This investment approach would support a sharper coverage of companies in each region, leading to identification of a larger number of potential growth stocks (multi-baggers), than would the conventional approach.

Scheme Feature

Type	A close-ended Growth scheme
Fund Manager	Sanjay Sinha
Investment Objective	To provide investors with opportunities for long-term growth in capital, through an active management of investments in a diversified basket of equity stocks, focusing on all four regions of India and in debt and money market instruments
Duration of the NFO	Opening Date: 24th Nov06 Closing Date: 25th Dec06
Option	Growth & Dividend (Payout & Reinvestment)
Maturity	The duration of the Scheme is 3 years from the date of allotment, and upon maturity, the Scheme shall be automatically converted into an open-ended scheme.
Re-opens	19th Jan06
Benchmark	BSE 200
Application Amount	<i>During NFO:</i> Min Rs 5,000 <i>Post NFO:</i> Min Rs 1,000
Entry Load	<i>During NFO:</i> Nil <i>Post NFO:</i> 2.25%
Exit Load	NIL, and if redeemed before 3 years of maturity, investor would have to bear the unamortised initial issue expenses, to the proportion of his investment
SIP/STP facility	SIP/ STP facility available only after the completion of 3 years of maturity

States and Union Territories in India	
North	J&K, HP, Punjab, Haryana, UP, Rajasthan, Delhi, Uttaranchal, Chandigarh
South	Andhra Pradesh, Karnataka, Kerala Tamil Nadu, Pondicherry
East	Bihar, Orissa, West Bengal, Sikkim, Jharkhand, Assam, Chattisgarh, Meghalaya, Arunachal Pradesh, Mizoram, Manipur, Andaman & Nicobar
West	Gujarat, Maharashtra, Goa, MP, Daman & Diu, Dadra & Nagar Haveli, Lakshwadeep

The companies of a region are defined as those having either their registered office or headquarters or a major manufacturing facility or a major revenue-generating activity in the particular region.

Asset Allocation

The Fund would invest a minimum 70% in equity and equity-related instruments, while 0-30% is proposed to be put in a mix of debt and money market instruments.

Also, the Fund may invest up to 0-20% of corpus in ADR/GDR/Foreign securities.

Instruments	% of Corpus	Risk Profile
Equity & Equity-linked securities	70 -100	Med - High
Debt & Money Market securities	0 - 30	Low - Med
ADR/GDR/Foreign Securities	0 - 20	High

Investment Strategy

- Aim to participate in the overall growth of the economy, by allocating investments in companies of various regions.
- Identify potential multi-baggers from each region, without any sector/market-cap bias.
- Spot companies that have their registered office or headquarters or a major manufacturing facility or a major revenue-generating activity in the particular region
- Adopt a unique blend of top down approach in selection of region and bottom up approach in stock selection
- Set up a team of four fund managers and four sectoral analysts to decide the course of investments
- To invest atleast 15% and not more than 55% of the equity asset of the Fund in a particular region
- Create a portfolio of 15 stocks minimum from each region, contributing to 60 stocks in the portfolio
- With an attempt to diversify across sectors in each region, exposure to a single sector is restricted up to 30% of the net asset value of the Fund. Stock selection immune to sector or market-cap bias
- In bearish market conditions, the Fund may endeavor to invest up to 30% of AUM in debt & money market instruments. It may also use various derivate and hedging strategies from time to time, in the manner permitted by SEBI.

Open-ended fund vs. Close-ended fund

Unlike open-ended funds, close-ended funds allow the fund manager to take a long- term call on assets, without the hurdle of redemption pressure and the frequent churning of portfolio.

Why SBI?

- SBI MF is among the most preferred Mutual Fund brands, with AUM of Rs 15,961 crores (as on 30th Nov06) and a colossal investor-base of 23 lakh.
- The Fund House has bagged 13 awards for an exuberant performance in the past year
- In the last three years, SBI MF has been recognised for superior performance against its peers.
- In the past the Fund House has successfully launched and managed innovative products.

Performance of existing schemes

As seen in the table, existing equity-diversified funds, other than sector-specific schemes, have delivered decent average returns, of over 51% in a year.

Most of the schemes of SBI MF have fairly outpaced their respective benchmarks and are among the top performers in their category.

As on 30th Nov06

Scheme/ Index Name	Corpus (Rs crores)	1 mth	3 mths	6 mths	1 yr	Benchmark
SBI Magnum Global Fund	838.52	11.69	29.04	23.63	66.40	BSE100
SBI Magnum Contra Fund	1,413.69	6.75	19.25	22.52	55.52	BSE100
SBI Magnum Midcap Fund	329.10	11.64	25.84	21.74	55.24	CNX Midcap
SBI Magnum COMMA Fund	509.03	3.54	18.22	18.66	52.22	BSE200
SBI Magnum Multi-Cap Fund	1,285.68	6.95	19.26	24.02	50.24	BSE100
SBI Magnum Multiplier Plus	801.98	7.33	18.07	21.95	50.12	BSE100
SBI Magnum Emerging Fund	322.98	6.51	21.90	13.88	31.53	BSE500
SBI Blue Chip Fund	2,363.37	3.27	12.93	19.27	N.A	BSE100
Category Average		7.21	20.56	20.71	51.61	
Index						
BSE 100		4.96	16.81	28.71	49.06	
BSE 200		5.42	17.63	27.55	47.66	
BSE 500		5.45	18.17	25.73	46.50	
CNX Midcap		4.85	17.69	15.22	32.26	

Similarly, performance of SOIF could be in line with the other equity diversified funds. What differentiates SIOF from the existing scheme is the nature of the Fund (close-ended for 3 years) and its investment focus on all the four geographical regions of India.

Concerns

- Though the Fund is close-ended in nature, with 3 years of maturity, it is still prone to the threat of churning, due to facility of daily exit option.
- Investment objective is not very different from multi-cap diversified equity fund.
- There arises a conflict of selecting a company within the definition of 'region'. For example, the registered office of Tata Steel is situated in Mumbai (western region), while its manufacturing facility is situated in Jamshedpur (eastern region). So, Tata Steel will qualify to be a part of both the western and eastern regions.
- At the current valuations, choosing a correct entry point in the stock is very important for the Fund.

Outlook

SBI One India Fund would endeavour to participate in the overall growth of the economy, which is likely to augment, backed by opportunities arising from various regions. SIOF is for investors who want to ride on the better prospects of India's economic boom through the mutual fund route.

A lot of effort has been made by the Fund House to make the investment objective of the Fund sound different from that of the existing funds. The Fund is like any other diversified equity fund, other than the fact that it is close-ended for three years. Therefore, one can choose to go for an existing diversified fund or a moderate to high-risk investor, with surplus liquidity and willing to block it for 3 years, can consider this as a part of his equity portfolio.

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