

Reliance Natural Resources Fund (RNRF)

Rationale

The rapid economic growth in the emerging economies like India and China has tremendously increased the demand for Natural Resources like Industrial Commodities and Energy. With no new Mega reserves of coal, crude oil, natural gas, metals etc likely to be discovered in the foreseeable future the prices of Natural Resources are likely to remain high and may even go higher.

It is the Fund's view that India's growth model promises more stable, sustainable expansion and bigger returns for the investors. There exists a very positive view on the sectors like Agriculture, Manufacturing, Service and Natural Resources which contribute, substantially to our GDP. In our view all these four sectors simultaneously are looking quite attractive and bullish over a longer period.

The Indian Investor like his counterparts in the Emerging Economies is exposed to the economic risks associated with steep and rapid rise in the prices of Natural Resources. There is a need for an Investment Scheme that allows diversified participation to the Indian investors in the Natural Resources Sector.

Investment Strategy

- ❑ The Fund invests principally in equity securities of issuers in natural resources industries.
- ❑ The Fund may invest in securities of issuers located anywhere in the world and normally will invest in securities of companies listed on BSE, LSE, NYSE, TSE and ASX.
- ❑ Companies in natural resources industries include companies that RCAM considers to be principally engaged in the discovery, development, production, or distribution of natural resources or are service providers to the Natural Resources Industry; the development of technologies for the production or efficient use of natural resources in addition also furnishing of related supplies or services.

Natural resources may include, for example, energy sources, precious and other metals, forest products, food and agriculture, and other basic commodities.

For understanding purpose, companies in natural resources industries may include, for example, companies that:

- ❑ Participate in the discovery and the development of natural resources from new or conventional sources;
- ❑ Own or produce natural resources such as oil, natural gas, precious metals, and other commodities;
- ❑ Engage in the transportation, distribution, or processing of natural resources;

- ❑ contribute new technologies for the production or efficient use of natural resources, such as systems for energy conversion, conservation, and pollution control;

- ❑ Provide related services such as mining, drilling, chemicals, and related parts and equipment

A particular company will be considered to be principally engaged in natural resources industries if at the time of investment at least 50% of the company's assets, gross income, cash flow, or net profits is, committed to, or derived from, those industries. A company will also be considered to be principally engaged in natural resources industries if RCAM believes that the company has the potential for capital appreciation primarily as a result of particular products, technology, patents, or other market advantages in natural resources industries.

Although RCAM may consider the factors described above in purchasing or selling investments for the Fund, it may purchase, sell, or continue to hold an investment for the Fund whenever it believes that doing so may benefit the Fund or on the basis of any of the factors described above or any other factors it may at its discretion consider.

(Bombay stock Exchange Limited (BSE), London stock Exchange Limited (LSE), New York Stock Exchange (NYSE), Toronto Stock Exchange (TSE) and Australian Stock Exchange (ASX))

Natural Resources At a Glance



Several major gas finds have taken place in India in the last few years

Energy Resources



POSCO and Mittal Steel plan to set up green-field operations

Precious & other Metals



India is rich in mineral resources with large reserves of several primary metals

Food & Agriculture



Food processing is set to grow at over 10% p.a.

Source: Ministry of Consumer Affairs, Food and Public Distribution (<http://fcamin.nic.in>), Directorate General of Hydrocarbons, Ministry of Petroleum and Natural Gas, BP Statistical Review of World Energy, Ministry of Coal (<http://coal.nic.in>), Coal India Ltd. (<http://www.coalindia.nic.in>), Ministry of Mines, Ministry of Steel (<http://mines.nic.in>, <http://steel.nic.in>), Ministry of Mines (<http://mines.nic.in>)

View & Outlook on the four major sectors where the fund would aim to principally invest in;

A. Energy sources would predominantly cover Oil & Gas exploration and Coal

Oil & Gas

Overview

- ❑ Oil & Gas contributes 38% of total energy consumption
- ❑ India is 5th largest crude consumer in the world.
- ❑ Indian Oil & Gas sector is characterized by excess demand & limited supply.
- ❑ As a result, India relies on imported crude ~70% of crude is imported.
- ❑ In FY07, India imported 111 MMT (million metric tonne) of crude oil valued at \$48bn (~30% of total imports) and exported 32MMT valued at \$18bn (15% of total exports).
- ❑ Crude oil Supply has failed to keep pace with Demand (**source: DGH**)
- ❑ Demand for both crude oil & Natural gas expected to increase at rapid clip given robust economic environment

Natural Gas – Would lead to structural changes in sector

- ❑ Natural gas demand is about 150 MMSCMD (2004) while the domestic supply is only 81 MMSCMD
- ❑ Share of Natural gas in India's total energy consumption would increase from present 8% to 20% by 2025
- ❑ Natural gas supply would double post production from KG D6 gas.
- ❑ Increased gas supply would necessitate investment in building up pipeline infrastructure. Total investment estimated for building pipeline infrastructure would mean additional \$6-7bn investment.

Potential

- ❑ Growing demand supply mismatch provides ample opportunities for investment
- ❑ The Government is actively promoting the creation of Strategic Oil & Gas reserves through partnerships with the private sector
- ❑ 32% of the Indian sedimentary area is unexplored – discovery of oil fields by investors such as Cairn Energy and 'giant' gas fields by Reliance, ONGC, etc. indicate a large potential for profitable investment in exploration
- ❑ Investment need of \$7-8 billion in exploration and production by 2010

Outlook

- ❑ Crude Oil demand is projected to increase to about 190 MMT by 2012

- Rising global Crude Oil prices have triggered increased Exploration and Production (E & P) focus to expand domestic production
- Gas demand is expected to reach 330 MMSCMD by 2012
- A CAGR of 10% for the next seven years
- Increased use of gas for power generation, petrochemicals, fertilizers and city gas distribution will drive demand growth

Coal

Overview

- Coal is the backbone of the Indian energy sector
- India has large coal reserves estimated at 248 billion tonnes, (93 billion tonnes are proven reserves)
 - Fourth largest proven coal reserves in the world
 - Third largest coal producer in the world—production of 360 million metric tonnes p.a.

Potential

- Availability of large reserves suitable for thermal power generation could be used for power plants and metal manufacturing
- The Coal sector is expected to grow rapidly, driven by increasing gap between power supply and demand due to rapid economic growth
- US\$ 30-40 billion investment opportunity over the next 10 years to:
 - Explore and develop new coal mines
 - Manufacture and sell state-of-the-art mining equipment and technology
 - Create related infrastructure for off-take of mined coal

Outlook

- Demand for coal expected to increase to 800 MMT p.a. by 2012
- Current shortage of coal is expected to increase to over 50 MMT p.a. by 2007

Source: Directorate General of Hydrocarbons, Ministry of Petroleum and Natural Gas, BP Statistical Review of World Energy, Ministry of Coal (<http://coal.nic.in>), Coal India Ltd. (<http://www.coalindia.nic.in>), DGH-Director General of Hydrocarbon

B. Precious & other Metals

Metal Ores

Overview

- India is rich in mineral resources with large reserves of several primary metal ores like iron ore, bauxite, chromium, manganese and titanium
- India has
 - 13 billion tonnes of iron ore reserves - the 5th largest reserve base in the world
 - 2.3 billion tonnes of bauxite reserves - the 4th largest reserve base in the world

- 160 million tonnes of manganese reserves – the 2nd largest reserve base in the world
- 57 million tonnes of chromium reserves – the 3rd largest reserve base in the world
- Indian deposits of bauxite and iron ore are among the best in the world in terms of quality and mine ability

Potential

- India has several advantages, making it an attractive destination for mining and value addition
 - Large quantity of high-quality reserves
 - Low labour and conversion costs (India is among the lowest cost producers of Steel and Alumina)
 - Large and growing domestic demand
 - Strategic location: proximity to the developed European markets and the fast-developing Asian markets for export of Steel, Aluminium
- India presents substantial mining opportunities across all metal ores (Estimated 82 billion tonnes of reserves of various metals yet to be tapped)
- Large integrated international metal manufacturers including POSCO, Mittal Steel and Alcan have announced plans for expansion in India

Steel & Aluminum

Overview

- India is among the top 10 global suppliers of aluminium and steel in the world
- India consumes over 0.75 million tonnes of aluminium and 0.4 million tonnes of copper annually
- The Metals industry employs about one million people and generates over \$13 billion in revenues (2004-05)

Potential

- India is one of the lowest cost producers of steel, alumina and aluminium
- India presents large investment opportunities across the value chain:
 - Integrated steel, copper and aluminium plants
 - Recycling plants for secondary aluminium
- Large integrated international metal manufacturers including POSCO, Mittal Steel and Dubai Aluminium have announced plans for setting up plants in India
- Investment opportunity of over \$10-15 billion in steel and about \$5 billion in aluminium by 2010

Outlook

- India has the potential to become one of the world's top five suppliers and top five markets for aluminium and steel
 - Steel consumption is expected to grow by 8% p.a. to 60 million tonnes by 2010

- Aluminium demand is expected to grow by 10% p.a. for the next ten years
- India's per capita consumption of metals is projected to increase substantially in the future
- Low per capita consumption today: 30 kgs. of steel as compared to 150 kgs. globally, 0.6 kgs. of aluminium as compared to 3–4 kgs. in the developing countries

Source: Ministry of Mines, Ministry of Steel (<http://mines.nic.in>, <http://steel.nic.in>), Ministry of Mines (<http://mines.nic.in>)

C. Food and agriculture and other basic commodities

Food & Agro Products

Overview

- India consumes about \$200 billion worth of food products p.a.; 53% of this is processed food – mostly primary processing
- India has a huge output of agricultural produce, with the 2nd largest arable land area in the world
- Primary food processing (packaged fruit and vegetables, milk, milled flour and rice, tea, spices, etc.) constitutes around 60% of processed foods

Potential

- Factors that are likely to fuel rapid growth in demand for processed food are:
 - Changing lifestyles and growth in disposable income
 - Rising double-income families and proportion of women in the workforce
 - Decreasing prices of processed foods, making them more affordable thereby accessing a much larger market
 - Rapid growth in organised retail (> 20% p.a.) with a variety of retail formats being developed
- Estimated investment of about \$22 billion in the next 10 years
- Major investment opportunities lie in processing milk, sugar, fruit, vegetables and marine products
 - An estimated 30% of new capacity could be for the export market

Outlook

- The domestic processed-food market is expected to triple in the next 10 years from about \$100 billion in FY 04 to \$310 billion in FY 15
- India aims to increase its share of world trade in this sector from 1.7% currently (\$7.5 billion) to 3% by 2015 (\$20 billion)

Source: Ministry of Consumer Affairs, Food and Public Distribution (<http://fcamin.nic.in>)

Product Features

Type: An Open Ended Equity Scheme

Investment Objective: The primary investment objective of the scheme is to seek to generate capital appreciation & provide long-term growth opportunities by investing in companies principally engaged in the discovery, development, production, or distribution of natural resources and the secondary objective is to generate consistent returns by investing in debt and money market securities.

However, there can be no assurance that the investment objective of the scheme will be realized, as actual market movements may be at variance with anticipated trends.

Asset Allocation

Under normal circumstances, the anticipated asset allocation would be

Instruments	% of Corpus (indicative)#	Risk Profile
Equity and Equity related Securities of companies principally engaged in the discovery, development, production or distribution of natural resources in: - Domestic Companies - Foreign securities as permitted by SEBI/RBI from time to time	65% - 100% 65% - 100% 0% - 35%	Medium to High
Debt and Money market securities (including investments in securitised debt*)	0% - 35%	Low to Medium

including investments in ADRs/GDRs/Foreign Securities/Overseas ETFs and any other instruments as may be permitted by SEBI/RBI upto 35% of the net assets of the scheme, exposure in derivatives upto a maximum of 100% of the portfolio value.

* including securitised debt upto 35%

Under the current regulations, the fund managers will seek to invest more than 65% of net assets in equity shares of domestic companies and around 35% of its net assets in ADRs/GDRs/Foreign Securities/Overseas ETFs in order to avail of the prevailing tax benefit of long term capital gains. However, investments in ADRs/GDRs/Foreign Securities/Overseas ETFs could be lower than 35% of the net assets due to the limit set on investments in ADRs/GDRs/Foreign Securities/Overseas ETFs or could be in excess of 35% of its net assets subject to the maximum amount permitted by SEBI/RBI from time to time, in case of amendment in the tax laws. However, if the exposure to ADRs/GDRs/Foreign Securities/Overseas ETFs exceeds 35% of its net assets for the above reasons, the same shall be regarded as a change in fundamental attributes and the procedure outlined in the paragraph on fundamental attributes below, shall be followed.

Plans Available: The scheme will have the following plans /options

Growth Plan: Growth Option & Bonus Option

- Dividend Plan: Dividend Payout Option & Dividend Reinvestment Option

Benchmark Index

A custom benchmark created using the BSE-200 to the extent of 65% of portfolio and MSCI World Energy Index for balance 35%

Since the MSCI World Energy Index will be US Dollar denominated, the conversion into Indian Rupees will happen based on the settlement price of the MSCI World Energy Index as on the last working day prior to the valuation date using the RBI reference rate as of 4.00.p.m on the valuation date.

Minimum Application Amount: For Resident and Non Resident Investors the minimum application amount is Rs 5000/- per plan per option and in multiples of Re. 1 thereafter

Additional Purchase Amount: Rs 1000 per plan per option and in the multiple of Re.1 thereafter

Load Structure (During the New Fund Offer and continuous offer including SIP installments)

Entry Load

- For subscription below Rs. 2 Crs - 2.25%
- For subscription of Rs 2 Crs & above and below Rs 5 Crs - 1.25%
- For subscription of Rs 5 Crs and above- Nil

Exit Load: Nil

Liquidity:

The Scheme will offer for Sale/Switch-in and Redemption / Switch-out of Units at NAV based prices on every Working Day on an ongoing basis, commencing not later than 30 days from the closure of New Fund Offer Period.

Recurring Expenses:

	As a percentage of Daily average net asset of the Scheme
Investment Management Expenses	1.25%
Marketing Expenses	1.00%
Operational Expenses	0.25%
Total	2.50%

The above expenses are estimates only and are subject to change as per actuals. While the AMC fees remains the same, other expenses, namely, Marketing Expenses and Operational Expenses may change inter se and the total expenses shall not exceed 2.50% of the amount of the Scheme's average daily net assets. Subject to SEBI Regulations, the AMC reserve the right to modify the above estimate for recurring expenses on a prospective basis.

Reliance Any Time Money Card: It shall be issued only to investors subscribing in this fund through Self Cheque

Initial issue expenses:

The Scheme shall meet the entire sales, marketing and such other expenses connected with sales and distribution of scheme during the new fund offer from the entry load and not through initial issue expenses in accordance with SEBI Circular dated April 4, 2006, being an open-ended scheme. Any expenses over & above the entry load amount shall be borne by the AMC.

SIP/STP/ SWP/ DTP: Available

Switch Facility: Available, subject to minimum Rs. 5000/- & any amount thereafter in switch in scheme (for opening a new folio/account) & minimum Rs 1000 & any amount thereafter for additional switch in. No load applicable for switches between the equity / sector specific schemes. However, differential load shall be charged for switching from Reliance Index to any other equity/sector specific scheme and switching from any other equity / sector specific scheme to Reliance NRI Equity Fund.

Switch Inter Plan/Option: No load will be charged

Auto Switch Facility:

This fund will offer an auto switch facility from Reliance Liquid Fund, Reliance Liquidity Fund and Reliance Floating Rate Fund to Reliance Natural Resource Fund during the NFO. However, RCAM reserves the right to extend or limit the said facility on such terms and conditions as may be decided from time to time.

Nomination facility: Available

Tax Benefits: The investors in this scheme will enjoy the same tax benefits which are available to unitholders of any other equity scheme.

Duration of New Fund Offer

Opening Date :, _____2007

Closing Date :, _____2007

New Fund Offer price: Rs.10/- per unit subject to applicable Entry Load.

Statutory Details: Sponsor: Reliance Capital Limited. **Trustee:** Reliance Capital Trustee Co. Limited. **Investment Manager:** Reliance Capital Asset Management Limited. **Statutory Details:** The Sponsor, the Trustee and the Investment Manager are incorporated under the Companies Act 1956.

Scheme Specific Risk Factors: Given the nature of the scheme, the portfolio turnover ratio may be very high and the AMC may change the portfolio according to the asset allocation commensurate with the investment objective of the scheme. The effect of high portfolio turnover could be higher brokerage and transaction costs. Due to these factors the NAV of scheme might be impacted. **Terms of Issue:** The AMC will calculate and disclose the first NAV not later than 30 days from the closure of New Fund Offer Period. Subsequently, the NAV will be calculated at the close of every working day and shall be published in two daily newspapers and also uploaded on the AMFI site and Reliance Mutual Fund site i.e. www.reliancecapital.com.

General Risk Factors: Mutual Funds and securities investments are subject to market risks and there is no assurance or guarantee that the objectives of the Scheme will be achieved. As with any investment in securities, the NAV of the Units issued under the Scheme can go up or down depending on the factors and forces affecting the capital markets. Past performance of the Sponsor/AMC/Mutual Fund is not indicative of the future performance of the Scheme. Reliance Natural Resources Fund is only the name of the Scheme and does not in any manner indicate either the quality of the Scheme; its future prospects or returns. The Sponsor is not responsible or liable for any loss resulting from the operation of the Scheme beyond their initial contribution of Rs.1 lakh towards the setting up of the Mutual Fund and such other accretions and additions to the corpus. The Mutual Fund is not guaranteeing or assuring any dividend/ bonus. The Mutual Fund is also not assuring that it will make periodical dividend/bonus distributions, though it has every intention of doing so. All dividend/bonus distributions are subject to the availability of the distributable surplus in the Scheme. For details of scheme features apart from those mentioned above and scheme specific risk factors, please refer to the provisions of the offer document. Offer Document and KIM cum application form is available at all the DISCs/ Distributors of RMF/www.reliancecapital.com. **Please read the offer document carefully before investing.**

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