

Fixed Income Markets:

Current Environment and Outlook

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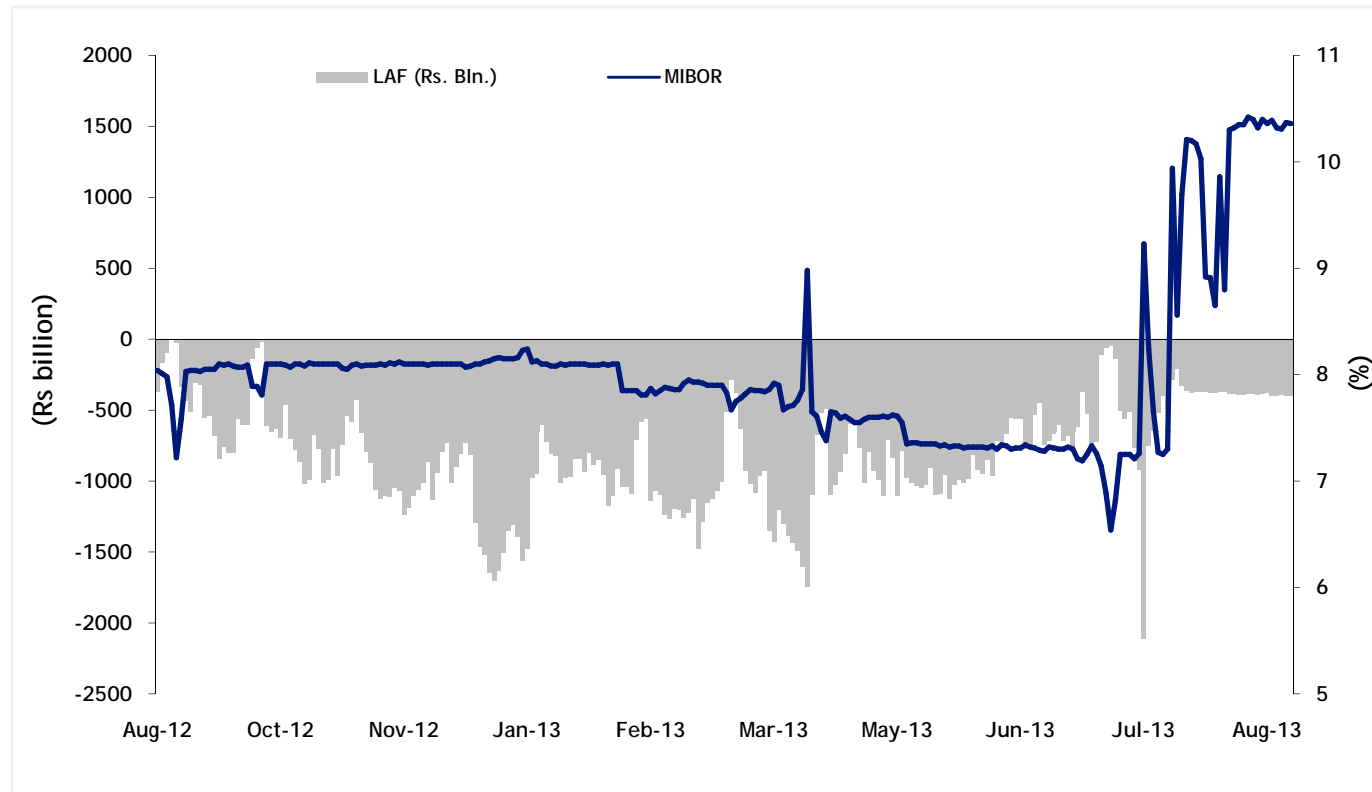


Macro Economic Events - Domestic

- The quick depreciation of INR vis-à-vis USD from May'13 onwards has led to a sharp rise in the imported cost of crude. The rupee has depreciated over 10% vis-à-vis USD from May'13
- The depreciating currency has led to a flight of debt and equity capital

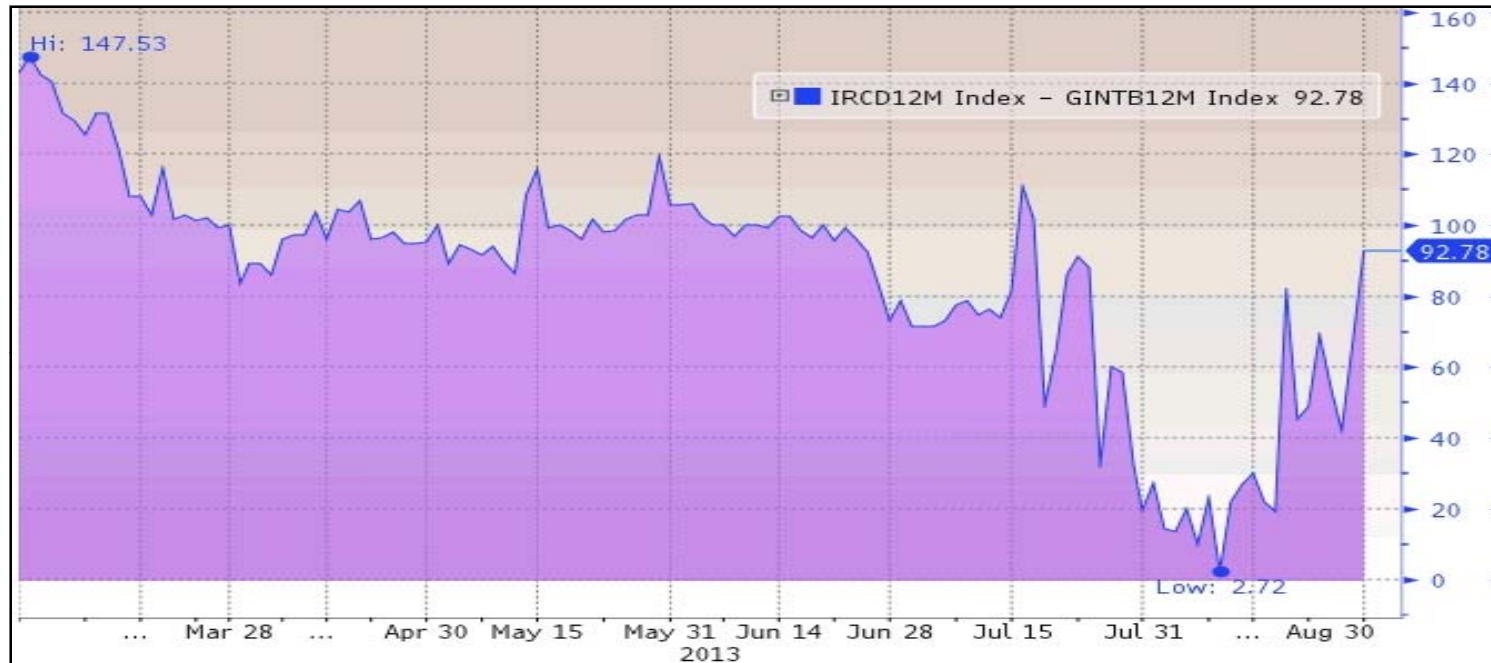
	August 13	July 13
Imports	-0.68%	-6.20%
Exports	13.00%	11.64%
	July 13	June 13
CPI	9.64%	9.87%
WPI	5.79%	4.86%
	June 13	May 13
IIP	-2.20%	-2.80%
	Jun 13	Mar 13
GDP	4.40%	4.80%
	Mar 13	Dec 12
CAD	-18.17 USD Bn	-31.77 USD Bn

Liquidity



- The liquidity tightening measures of RBI has led to overnight rates touching 10.25%. The daily operative rate moved from 7.25% to 10.25%
- The liquidity on an average for the month has remained negative by Rs. 384 billion
- The measures of RBI was aimed at reducing speculative activity in currency trades

Money Market (spread between 12M T bill & CD)



- The spreads over T-bills increased over a period of time
- In the primary market RBI conducted series of Cash Management Bills (CMBs) and T-bills auctions in order to reduce the availability of rupee liquidity

Inflation Dynamics



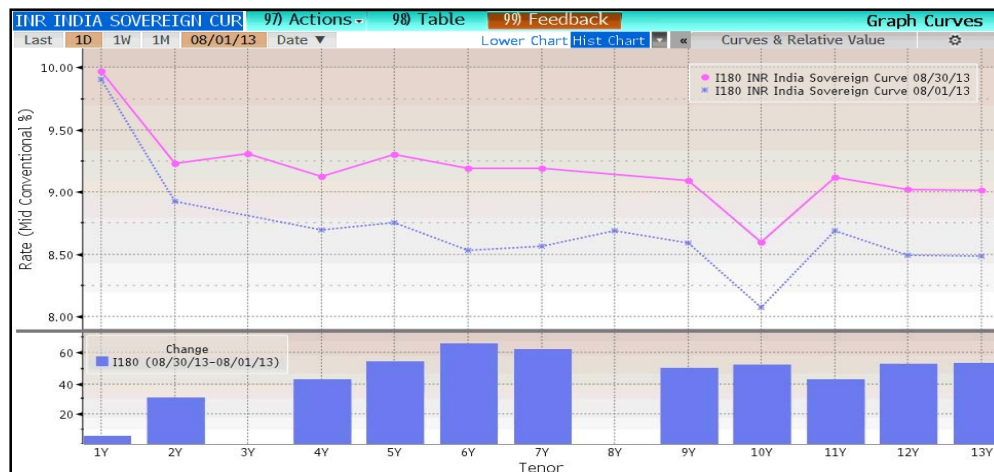
- Against wide-scale forecasting the July 2013 inflation data crossed 5%

G-Sec Yield Curve

10 Year G – Sec

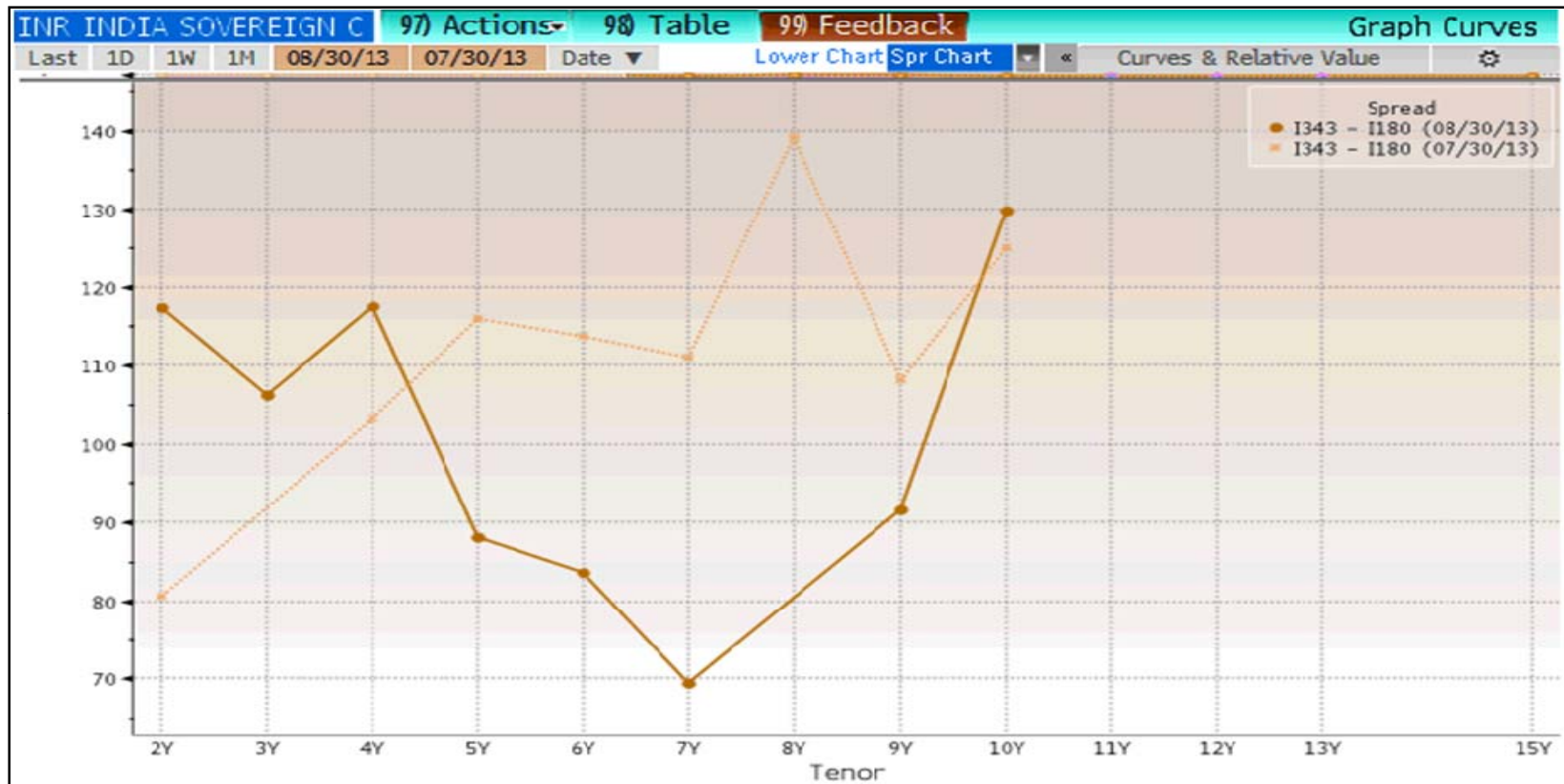


G – Sec Yield Curve Change



- The sovereign market experienced a high volatility and bearish undertone over the month due to heightened volatility & depreciating currency
- The concentration of trading was polarized in the 10 year benchmark security
- The supply of Cash Management Bills (CMBs) every week kept the yields at the shorter end elevated

Corporate Bond spreads widened



- The credit spreads of the corporate bonds also widened
- The volume was also notably in a few 10 year maturity securities but scanty. Only a few select AAA issues were traded
- The yield points from 5 – 9 years segment of the bond curve was not traded as evident from the above graph

Fixed Income Outlook and Opportunities

Fixed Income Market Outlook

Negatives

- The broad macro economic negatives are unchanged over the previous month
- The slow economic growth is leading to low tax revenues & threatens higher fiscal deficit
- Slow adjustment of the domestic fuel prices leading to higher subsidy burden and suppressed inflation
- Volatile currency prompting RBI to take liquidity tightening measures
- General nervousness amongst investors particularly FIIs

Positives

- The imposition of import duty on gold imports has led to some drop in demand and hence improvement in CAD
- The conduct of OMO has lend some softening of yields at the 10 year sovereign segment.

Outlook

- The market is expected to be choppy and unclear over the near to medium term
- Higher level of volatility is expected to reduce liquidity in the market
- The inverse yield curve once again opens up suitable strategies from the short to medium segment of the curve
- The credit spreads might continue to widen and the yields at the longer end might tend to harden if the current set of measures are continued






Portfolio Actions during the month





- **Religare Invesco Liquid Fund:** The fund has been reducing the duration to close to 2 weeks and increasing exposure to very short maturity securities apart from Cash Management Bills (CMBs)
- **Religare Invesco Ultra Short Term Fund:** The fund is maintaining a marginal exposure to MTM assets and moderating the exposure actively. The fund is largely comprised of short maturity papers
- **Religare Invesco Short Term Fund:** The fund has actively brought down the duration to below 1 year and pruned down the exposure to the 3 year plus segment and gilts
- **Religare Invesco Credit Opportunities Fund:** The fund has been successfully investing in mis-priced credits with low interest rate risk in assets of upto 2 months
- **Religare Invesco Active Income Fund:** The fund has been actively trading in the liquid PFI credit segment apart from the 10 year plus gilt segment. We actively managed the portfolio duration between 1.5 - 6 years. The exposure to gilts has been pared down given the market volatility
- **Religare Invesco Gilt Fund – Long Duration Plan:** The fund has been actively trading in the liquid 10 year plus gilts. It is investing upto 30 years gilts. Currently maintaining a duration between 2-6 years
- **Religare Invesco Gilt Fund – Short Duration Plan:** The fund has started investing in the 3 month T-bills and short maturity CMB. Maintaining the portfolio duration around 1 month.
- **Religare Invesco Bank Debt Fund:** The fund is largely invested in the Bank CD and Bank Bonds segment. It is maintaining a portfolio modified duration around 1year
- **Religare Invesco Medium Term Bond Fund:** The fund has actively reduced duration and maintained a duration of around 1 year approximately

Ideas for investors

- The market volatility has gone up significantly over the last 2 months. Investors are encouraged to select funds with duration in line with their investment horizon or shorter. The volatility is expected to continue till RBI continues the efforts against currency volatility. All short-duration funds should be able to sail through this period well and are in a position to deliver steady income. Investors are encouraged to reduce duration of their portfolios and/or select funds with shorter duration
- *Religare Invesco Credit Opportunities Fund* offers an opportunity for investors with short investment horizons of 1 - 3 months and moderate level of credit risk appetite. The fund is ideally positioned to capture mis-priced risk in an environment of deficit liquidity and superior credit spreads of short maturity papers
- *Religare Invesco Short Term Fund* offers accrual along with a contained interest rate risk. Ideal for investors with 3 - 6 months investment horizon
- *Religare Invesco Medium Term Bond Fund* offers higher current yield and moderate interest rate risk. The present duration of under 12 months opens up opportunities of capital appreciation over a 3 - 9 month investment horizon for investors with moderate risk appetite
- *Religare Invesco Active Income Fund* – It opens up opportunities of capital appreciation in an environment of the yield curve steepening through active duration management within 2 - 6 years. It is intended for investors with varied investment horizon (at least 3 months) with moderate to high risk appetite
- *Religare Invesco Bank Debt Fund* – a thematic high credit quality portfolio comprising of bank CD and bank bonds, along with a small allocation to gilts/PFI. It's a superior investment allocation for credit risk averse long term investors, looking for stable returns, along with some capital appreciation from a well regulated industry over a 1 year investment horizon
- *Religare Invesco Gilt Fund – Long Duration Plan* – It opens up opportunities of capital appreciation in an environment of credit risk aversion and hence higher demand for gilts. An actively managed gilt portfolio during phases of credit risk aversion is intended for investors with varied investment horizon (at least 3 months) with moderate to high interest risk appetite
- *Religare Invesco Gilt Fund – Short Duration Plan* – The fund investing in CMB & upto 3 month T-bills is expected to deliver superior returns for investors from a sovereign risk asset class over a 3-6 month period


Product Labeling


Scheme Name	Suitable for investors who are seeking*:	
Religare Invesco Liquid Fund Open – ended Liquid Scheme	a)	Regular income over short term
	b)	Provide reasonable returns with high liquidity by investing in money market and debt securities
	c)	Low Risk  (BLUE)
Religare Invesco Ultra Short Term Fund Open – ended Debt Scheme	a)	Regular income over short term
	b)	Provide optimal returns while maintaining balance between safety and liquidity by investing in a mix of short term debt and money market instruments
	c)	Low Risk  (BLUE)
Religare Invesco Short Term Fund Open – ended Income Scheme	a)	Regular income over short to medium term
	b)	Provide steady returns by investing in short-medium term debt and money market instruments
	c)	Low Risk  (BLUE)
Religare Invesco Credit Opportunities Fund Open – ended Income Scheme	a)	Regular income over short to medium term
	b)	Provide high level of current income (vis-à-vis treasury bills) by investing in investment-grade low duration debt securities and money market instruments
	c)	Low Risk  (BLUE)
Religare Invesco Medium Term Bond Fund Open – ended Income Scheme	a)	Regular Income over medium term
	b)	Provide regular income and capital appreciation by investing in medium term debt and money market instruments having residual maturity up to 5 years.
	c)	Low Risk  (BLUE)


Scheme Name	Suitable for investors who are seeking*:	
Religare Invesco Active Income Fund Open – ended Income Scheme	a)	Regular income over medium to long term
	b)	Provide optimal returns while maintaining liquidity through actively managed portfolio of debt and money market instruments
	c)	Low Risk  (BLUE)
Religare Invesco Bank Debt Fund Open ended – Debt Scheme	a)	Regular income over short to medium term
	b)	Provide optimal returns by investing in debt and money market instruments issued primarily by banks
	c)	Low Risk  (BLUE)
Religare Invesco Gilt Fund – Long Duration Plan Open – ended Dedicated Gilt Fund	a)	Credit risk free returns over medium to long term
	b)	Provide optimal returns by investing in securities issued and guaranteed by Central and State Government with portfolio maturity of greater than 3 years
	c)	Low Risk  (BLUE)
Religare Invesco Gilt Fund – Short Duration Plan Open – ended Dedicated Gilt Fund	a)	Credit risk free returns over short to medium term
	b)	Provide optimal returns by investing in securities issued and guaranteed by Central and State Government with portfolio maturity of less than 3 years
	c)	Low Risk  (BLUE)

*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

Disclaimer

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Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

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