

Fixed Income Market Outlook

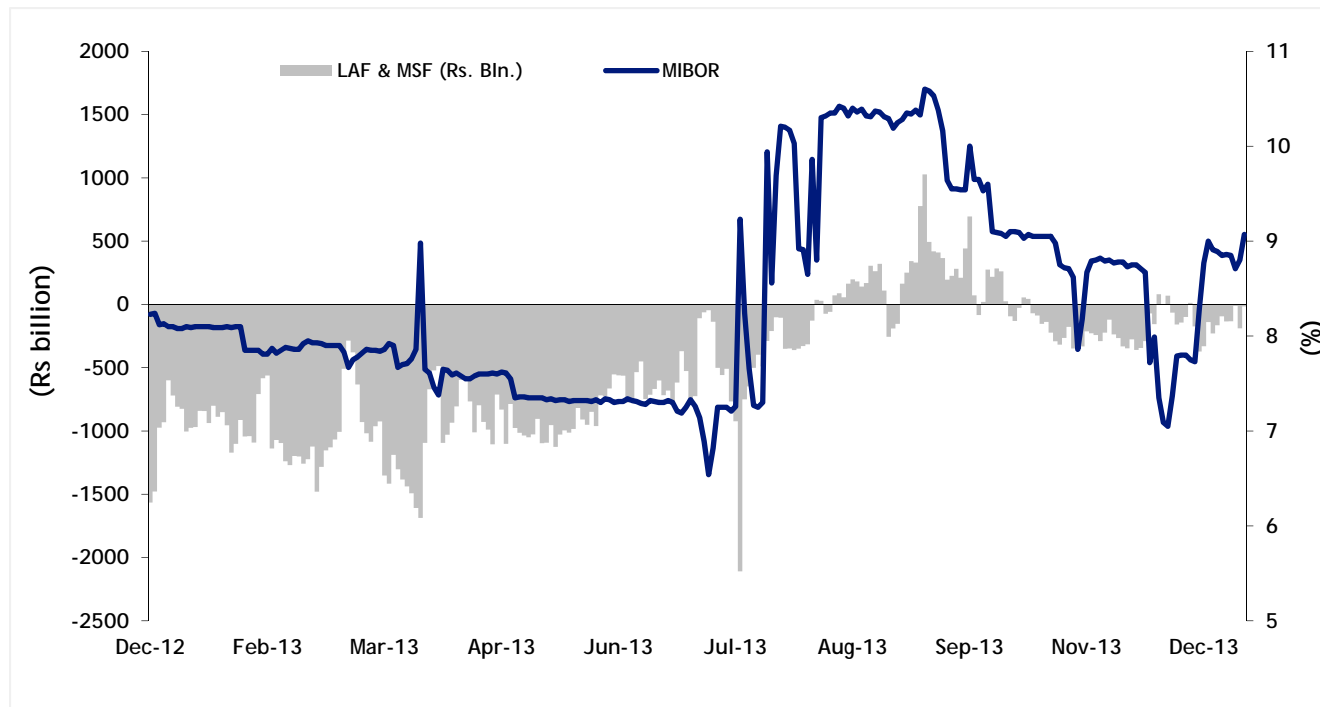
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Macro Economic Events - Domestic

- The broad economic conditions remained largely unchanged over the previous quarter
- The factory output data was disappointing and it contracted over the months
- There was a marked improvement in the external current account deficit (CAD) position and the 2QFY14 CAD was at USD 5.20 bn compared to USD 21.77 bn of the previous quarter. The sharp fall in the import of gold led to the improvement in the CAD balances
- The forex reserves also increased to USD 295 bn due to healthy inflow of overseas deposits
- The inflation data moved northwards and WPI touched a high of 7.52%
- RBI hiked repo rate by 25bps in Oct'13 to 7.75%

Liquidity



- The overnight rates eased over the quarter due to MSF rate reduction from 10.25% to 8.75%
- The liquidity position within the banking system improved due to offshore inflows
- The borrowings from RBI under MSF also reduced over the last quarter
- The liquidity on an average for the quarter has remained negative by Rs. 131 billion

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



- The spreads of bank CDs over T-bills remained unchanged
- Higher demand for bank assets kept the spreads within a narrow band

Inflation Dynamics



- High food inflation pushed the headline inflation higher
- The WPI inflation reached a 12 month high in Nov'13.

G-Sec Yield Curve

10 Year G – Sec



- The fear of FED tapering and additional borrowing by Government of India (GOI) pushed the sovereign yields higher
- An upward moving inflation & RBI's rate hikes led to reduced demand for gilts in the market
- The yields of sovereign bonds crossed 9% mark
- A new 10 year benchmark paper was issued in Nov'13 and helped to reduce the yields as market demand moved towards the (new bond) 10 year benchmark paper

G – Sec Yield Curve Change



Corporate Bond spreads contracted



- The spreads contracted due to under-performance of sovereign bonds

Fixed Income Outlook and Opportunities

Fixed Income Market Outlook

- The yields of debt securities will move in line with inflation and RBI's rate actions
- Over the next month the liquidity situation is expected to remain easy as government spending in the initial period of the month is expected to reduce the dependence on RBI's MSF lending facility at 8.75%
- Reduced supply of G-sec from the following month (Feb'14 onwards) and increased issuance of corporate bonds might lead to credit spreads widening from the current levels. The inflation data in the middle of the month and RBI rate action towards the end of the month will determine the movement of yields over the month
- While the yields of G-sec might trade within a range of 30-40 bps initially, the yields are expected to gradually taper downwards by the end of the borrowing calendar. The FED tapering or any speed up in the FED tapering might lead to a trend reversal to any decline in yields witnessed in Indian debt markets

Portfolio Actions during the quarter












- **Religare Invesco Liquid Fund:** The fund has maintained a low duration and increasing exposure to very short maturity securities through a mix of CD, CP and T-bills and other short maturity assets
- **Religare Invesco Ultra Short Term Fund:** The fund is comprised of bank CDs and CPs apart from T-bills. The duration is being actively managed between 1-12 months , hence the scheme will benefit from the reduction in the marginal standing facility (MSF) rates
- **Religare Invesco Short Term Fund:** The fund is maintaining a duration between 1-1.5 years largely comprised of the AAA PFI segment. The exposure in the 3 years space has been increased in order to benefit from any curve steepening
- **Religare Invesco Credit Opportunities Fund:** The fund continues to invest in assets of short maturity which are available at a higher credit spread compared to others. The maturity is being maintained below 2 months to reduce any rate risk
- **Religare Invesco Active Income Fund:** The fund has been actively trading in the liquid PFI credit segment apart from the gilt segment. We actively managed the portfolio duration between 1.5 - 6 years. The exposure to gilts has been actively altered based on market volatility and view
- **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 1-7 years
- **Religare Invesco Gilt Fund – Short Duration Plan:** The fund maintained exposure in short maturity T-bills of under 91 days
- **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 2 years

Ideas for investors

- Investors are urged to remain cautious given the market situation and select funds which are maintaining low duration. The yield curve might steepen out from the present situation as inflation might remain sticky in India and push yields of long bonds upwards
- *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* – Investors are encouraged to invest in gilt funds with a 6-12 month view as government prepares to contain the fiscal deficit within the budgeted target of 4.8%. The present level of the 10 year benchmark is 130 bps higher than the long term average. The yields can revert towards the mean with any improvement in the fundamental fiscal position of the economy and improvement in the tax collections


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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