

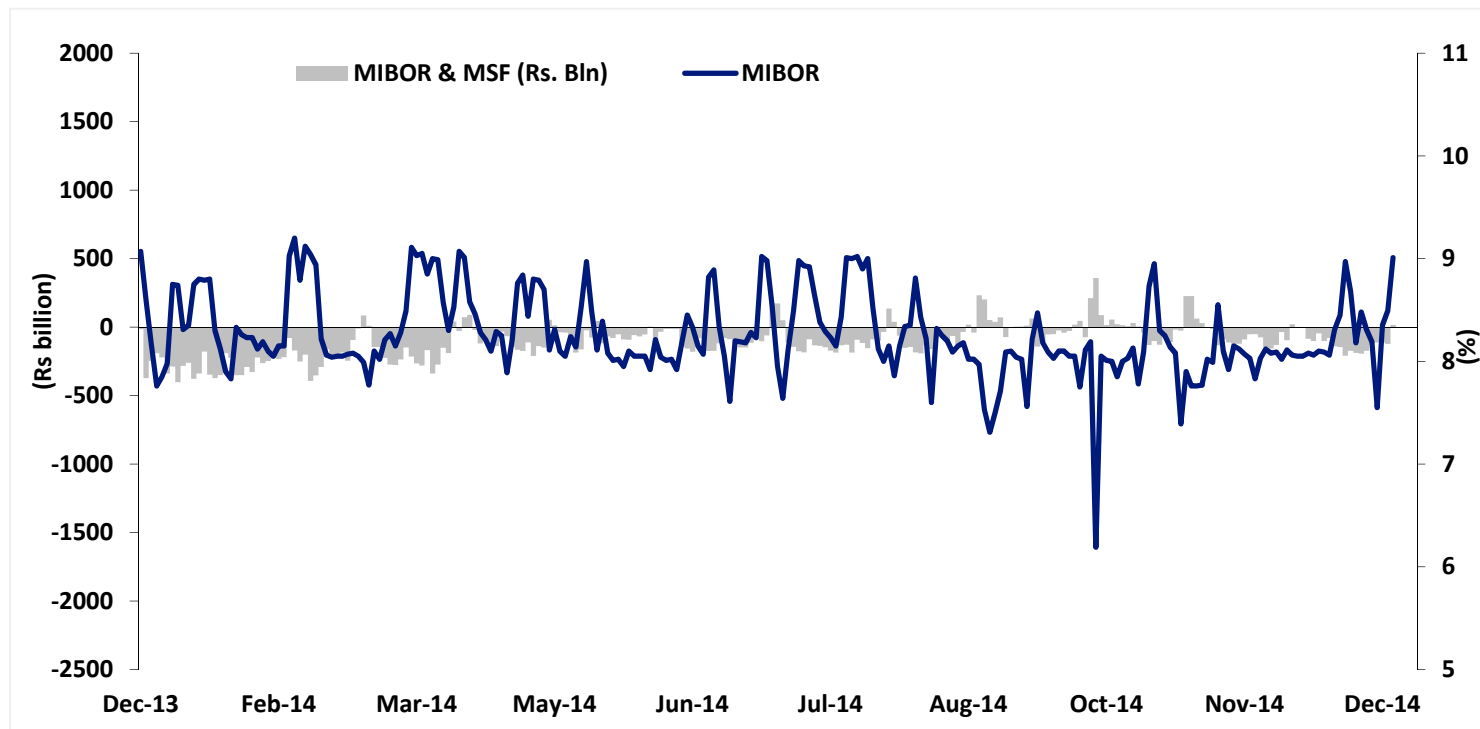
Fixed Income Market Outlook

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Macro Economic Events - Domestic

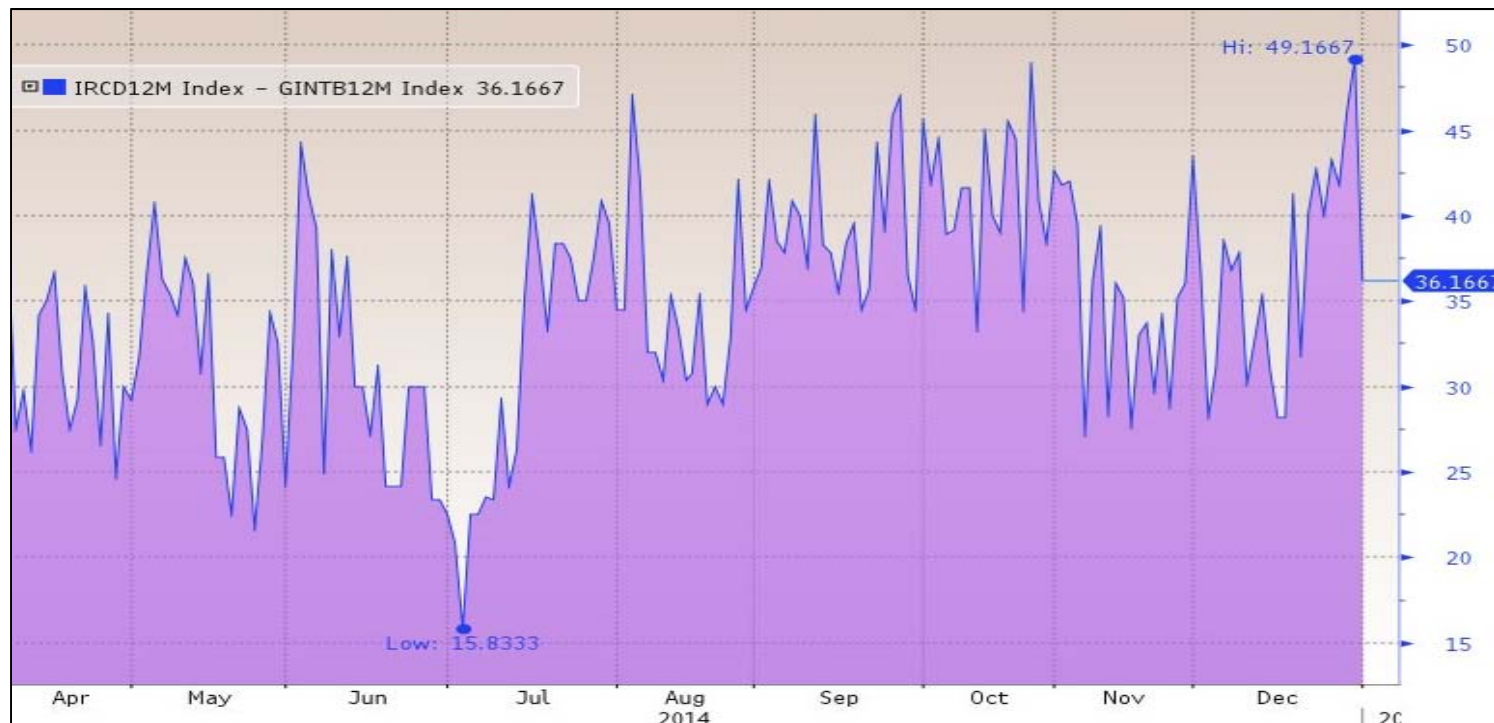
- The domestic economy experienced a protracted decline in inflation over the last quarter. The well managed food prices and moderation in rural wages along with meaningful declines in commodity prices helped in the bringing down inflation. The CPI inflation has moved lower to 5% in Dec'14 from 6.46% in Sept'14
- The WPI inflation has also come down to 0.11% in Dec'14 from 2.38% in Sept'14
- The currency traded within a narrow band and was relatively stable. Despite dollar being strong, the behavior of the rupee was noteworthy. The rupee appreciated against the euro and the GBP (Great Britain Pound)
- The sharp drop in international crude oil prices, the OPECs decision to maintain production levels helped in bringing down the import bill for India. The governments' prompt decision to de-regularize the diesel prices will eventually help in saving fuel subsidy
- Notwithstanding the government's decision to open up the economy and speed fast policy decisions, the manufacturing sector is yet to exhibit improvement at the ground level. The 'Make in India' campaign to make India a preferred manufacturing destination is being lauded globally and the decline in inflation further supplements the campaign. The higher FDI limits in select sectors is also a big positive towards revival of economic growth.
- RBI continues to maintain its guard against inflation by upholding the high monetary rates.
- Investor interest in Indian debt market continued resulting in US \$ 26.24 billion worth of inflows by FPI in 2014.

Liquidity



- The liquidity conditions remained largely unchanged over the last quarter. The OMO of RBI along with steady intervention in the forex market and LAF in the overnight and term markets helped in maintaining the overnight rates within a narrow band
- The liquidity on an average for the quarter has remained negative by Rs. 52 billion

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



- The spreads of CDs over t-bills contracted as the expectations of rate reduction builds up, during a phase of easy liquidity.

Inflation Dynamics



- There has been a steady decline in headline inflation. The drop in international commodity and energy prices helped in the decline
- Low credit growth has helped in keeping inflationary expectations at bay

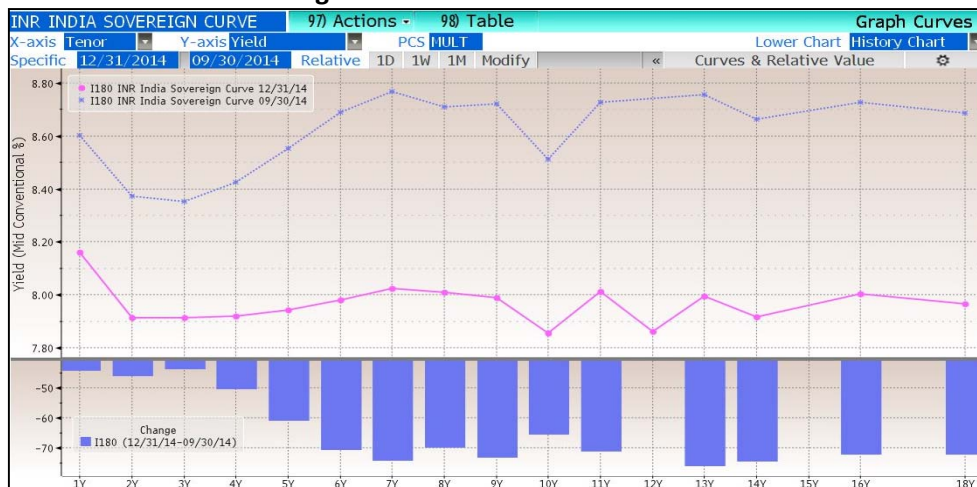
G-Sec Yield Curve

10 Year G – Sec



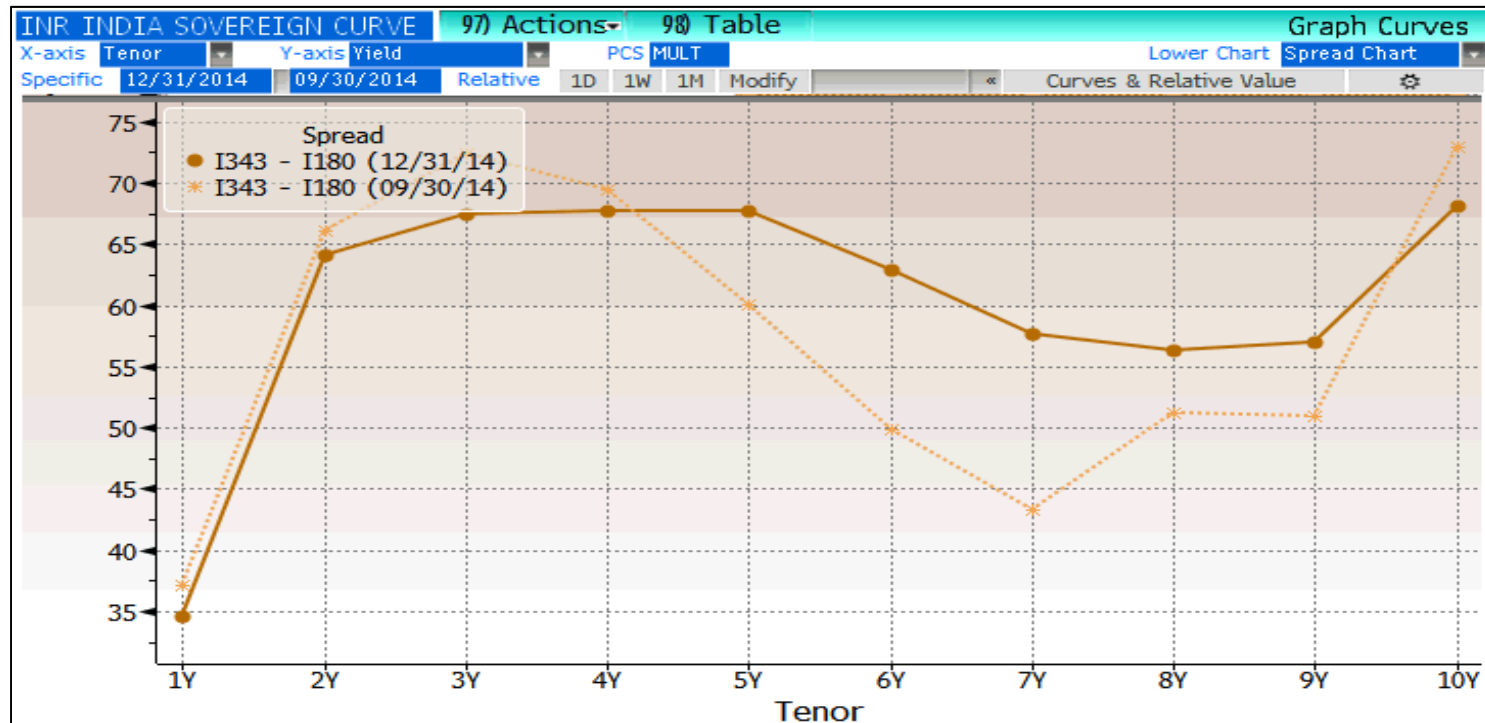
- Sovereign yields came off due to expectations of rate reductions and drop in inflation
- Foreign inflows and fiscally prudent policies helped in the bond rally
- The yields came off by about 65bps on the 10 year benchmark over the last quarter

G – Sec Yield Curve Change



- Dovish statements from RBI also helped in keep the rates soft
- The sovereign curve almost witnessed a parallel downward shift with some signs of flattening at the longer end of the curve

Corporate Bond spreads largely unchanged



- The spreads were largely unchanged over the quarter
- In-between the spreads had contracted by about 20-30bps. The sudden widening towards the end of the quarter was due to nervousness around the collapse of the Russian Ruble

Fixed Income Outlook and Opportunities

Fixed Income Market Outlook

- The shift of benefits from producers to consumers due to lower oil prices globally, and superior shale oil technology will continue to maintain a benign imported inflation for India
- The moderation in the MSP hikes and a part amendment to the APMC act of keeping the fruits and vegetables out of the ambit has had a moderate impact on the domestic inflation. Both the above reasons are expected to keep inflation in check for India in the foreseeable future
- We expect RBI to begin the rate reduction cycle beginning Q1 2015 and continue to reduce rate gradually over a period of time
- With improved prospects of India as a compelling investment destination, we believe the country's real rates (inflation adjusted) will contract to about 1% going forward. We expect to see the 10 year benchmark closely trail the repo rate over the following 3 years











Portfolio Actions during the quarter

- **Religare Invesco Liquid Fund:** The scheme 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 scheme 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 scheme is maintaining a duration of around 2 years largely comprised of the AAA PFI segment. The exposure in the 3 -10 years space has been increased in order to benefit from bull flattening experienced in the market before any rate reduction from RBI
- **Religare Invesco Credit Opportunities Fund:** The scheme 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:** We intend to manage the portfolio duration above 7 years in light of the swift decline in inflation. The scheme has a bias towards duration over credits at this point given the tight spreads
- **Religare Invesco Gilt Fund – Long Duration Plan:** The scheme has been actively trading in the liquid 10 year-plus gilts. It is investing upto 30 years gilts. Currently maintaining a duration over 8 years
- **Religare Invesco Gilt Fund – Short Duration Plan:** The scheme pursued a barbell strategy between cash and 10 year benchmark and created a portfolio with maturity little under 3 years
- **Religare Invesco Bank Debt Fund:** The scheme is largely invested in the Bank CD and Bank Bonds segment. It is maintaining a portfolio modified duration around 3 years. The scheme has also indulged in tactical trades in gilts
- **Religare Invesco Medium Term Bond Fund:** The scheme has actively managed duration and maintained a duration of around 3 years

Ideas for investors


- Investors are urged to enter long duration funds and select funds with longer duration, as the rates are poised to decline over the years as headline inflation shows sign of gliding towards 6% by Jan'16. They should also look to enter credit funds of under 2 years as the credit environment is expected to improve with improved growth conditions
- 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 scheme 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 6 - 18 months investment horizon
- Religare Invesco Medium Term Bond Fund offers higher current yield and moderate interest rate risk. The present duration of under 36 months opens up opportunities of capital appreciation over a 18 - 36 month investment horizon for investors with moderate risk appetite
- Religare Invesco Active Income Fund – It opens up opportunities for investors with 3 years of investment horizon
- 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 as the valuations are attractive and the yields are trading close to historic highs, and the monetary rates are creating the dis-inflationary effect for attaining 6% on CPI by Jan'16
- Religare Invesco Corporate Bond Opportunities Fund – This product is suited for investors who are looking for a steady stream of income over a 3 year period from a well diversified credit portfolio


Product Labeling


Scheme Name	Suitable for investors who are seeking*:		Scheme Name	Suitable for investors who are seeking*:	
Religare Invesco Liquid Fund Open – ended Liquid Scheme	a)	Regular income over short term	Religare Invesco Active Income Fund Open – ended Income Scheme	a)	Regular income over medium to long term
	b)	Provide reasonable returns with high liquidity by investing in money market and debt securities		b)	Provide optimal returns while maintaining liquidity through actively managed portfolio of debt and money market instruments
	c)	Low Risk  (BLUE)		c)	Low Risk  (BLUE)
Religare Invesco Ultra Short Term Fund Open – ended Debt Scheme	a)	Regular income over short term	Religare Invesco Bank Debt Fund Open ended – Debt Scheme	a)	Regular income over short to medium 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		b)	Provide optimal returns by investing in debt and money market instruments issued primarily by banks
	c)	Low Risk  (BLUE)		c)	Low Risk  (BLUE)
Religare Invesco Short Term Fund Open – ended Income Scheme	a)	Regular income over short to medium term	Religare Invesco Gilt Fund – Long Duration Plan Open – ended Dedicated Gilt Fund	a)	Credit risk free returns over medium to long term
	b)	Provide steady returns by investing in short-medium term debt and money market instruments		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)		c)	Low Risk  (BLUE)
Religare Invesco Credit Opportunities Fund Open – ended Income Scheme	a)	Regular income over short to medium term	Religare Invesco Gilt Fund – Short Duration Plan Open – ended Dedicated Gilt Fund	a)	Credit risk free returns 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		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)		c)	Low Risk  (BLUE)
Religare Invesco Medium Term Bond Fund Open – ended Income Scheme	a)	Regular Income over medium term	Religare Invesco Corporate Bond Opportunities Fund Open- ended Income Scheme	a)	Income and capital appreciation over medium to long 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.		b)	Provide return and capital appreciation by investing in corporate debt securities of varying maturities across the credit spectrum.
	c)	Low Risk  (BLUE)		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

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

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