

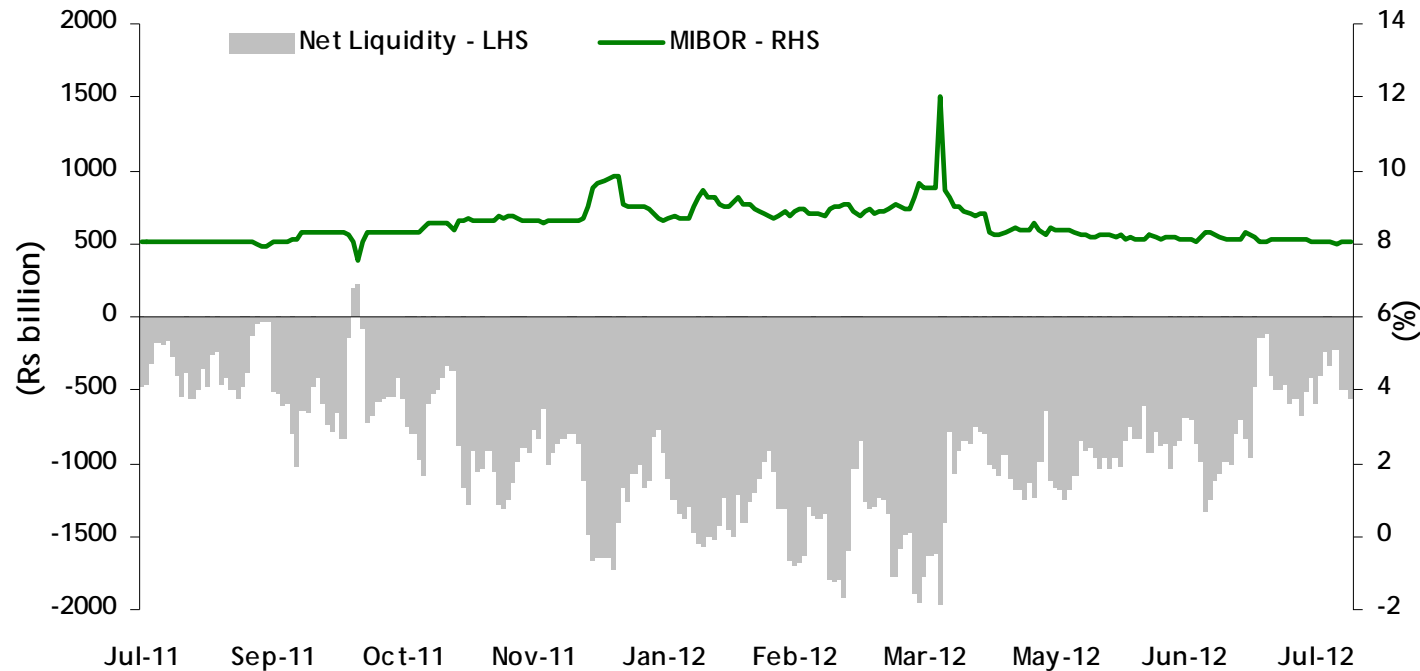
Fixed Income Markets : Current Environment and Outlook

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Macro Economic Events - Domestic

- The macro data released over the month of July'12 continued to display moderating growth and higher headline inflation.
- Exports have been negative for the month of June'12, which was at 5.5% (vs -4.2% previous month).
- Imports too have been negative at 13.5% (vs -7.4% previous month).
- IIP growth on YoY basis was 2.4% for May 2012 (vs 0.1% previous month).
- The headline WPI inflation was 7.25% for June'12 (vs 7.55% in May'12).
- The CPI inflation was at 10.02% in June'12 (vs 10.36% in May'12).

Liquidity



- The liquidity position within the banking system has shown some improvement.
- The daily average infusion decreased to Rs 45,900 crores in July'12 from Rs 91,400 crores in June 2012.



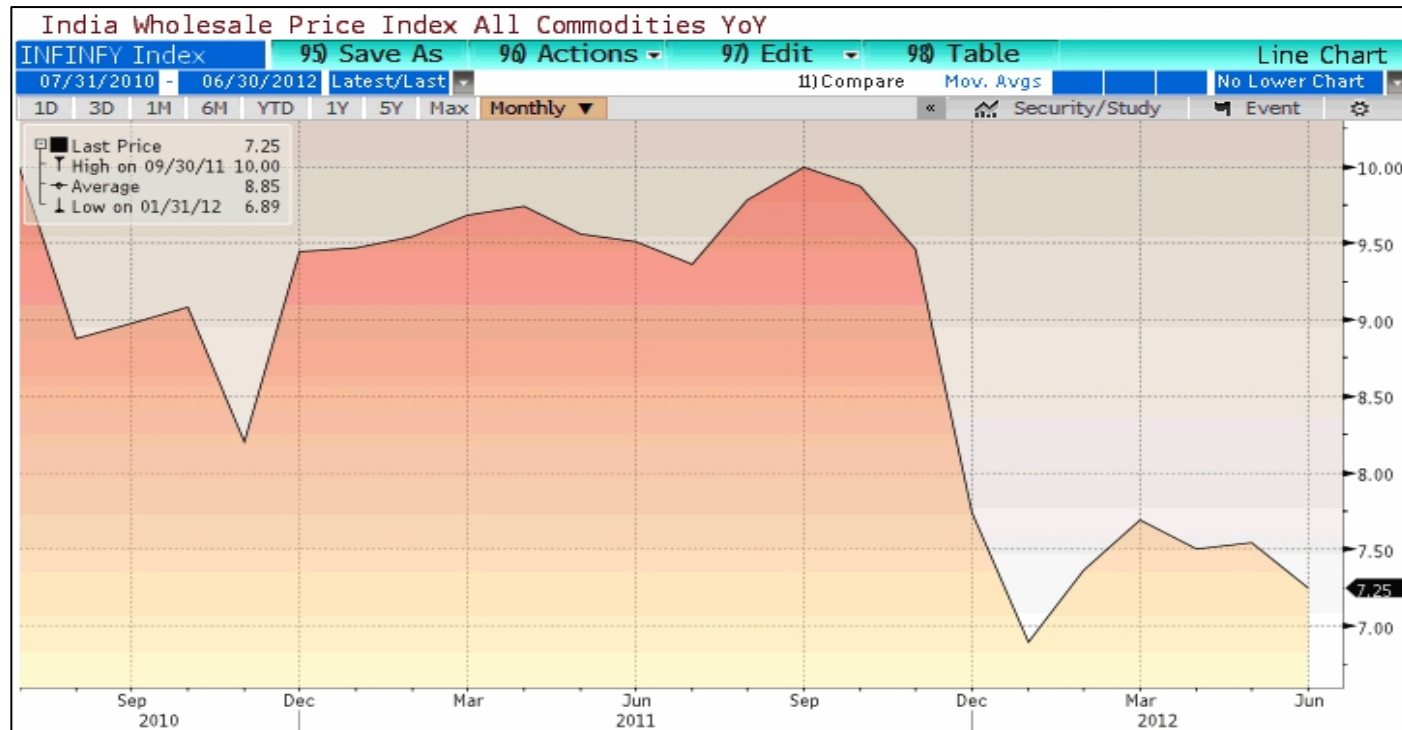
Money Market (spread between 12m T bill & CD)



- The credit spreads of Bank CDs over T-bills decreased over the month compared to June'12.
- The current credit spread is the narrowest over a 1 year period.



Inflation Dynamics - moving away from expectations

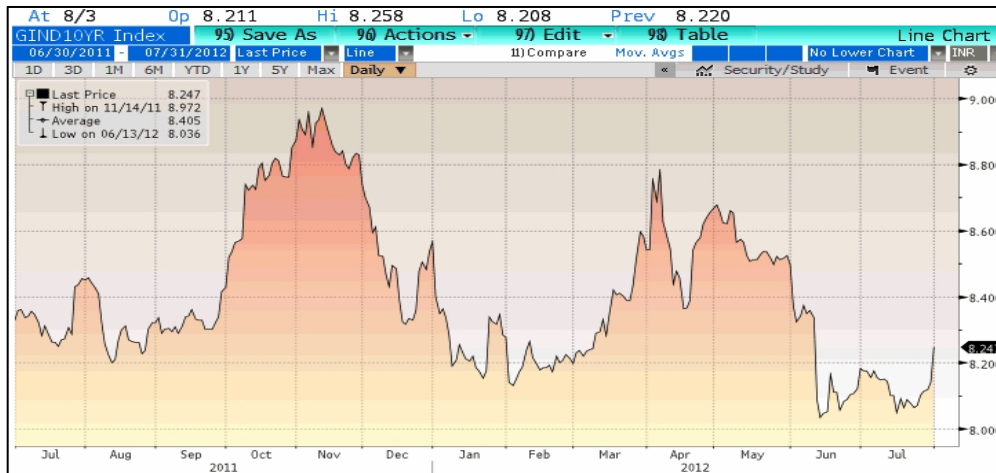


- Contrary to wider expectations, the headline inflation stays over 7%
- RBI revises the March'13 target from 6.5% to 7%



G-Sec Yield Curve - moved lower

10 Year G – Sec Yield Curve



- The yields of most sovereign securities moved higher over the month.

- The yields in the first half of the month moved lower on the back of some positive sentiment due to the OMO of RBI and some strengthening of the currency.

- Due to higher than expected WPI data the yields started to harden and moved higher over the second half of the month.

- Hawkish RBI credit policy review deteriorated the sentiment further and yields continued to harden thereafter.

G – Sec Yield Curve Change



Corporate Bond Spreads widened



- There has been some decline in the credit spreads over the month as gilts continued to underperform at the longer segment of the curve.



Religare MF: Fixed Income Outlook and Opportunities

Fixed Income Market Outlook

- The relatively improved liquidity condition within the banking system is expected to keep the yields of all money market securities yields at the current level with a declining bias.
- Any further decline in yields without a reduction in repo rate by RBI seems unlikely, unless there is improvement in liquidity conditions & overnight rate drops closer to 7%.
- The delay of wholesale deposit mobilization through CDs by the banks has also helped the downward movement to continue. The yields of other superior quality papers can also witness downward decline in the absence of any primary supply of bank CDs.
- The headline inflation has not yet shown any signs of cooling off. Hence, uncertainty prevails on the timing of any rate reduction from RBI.
- All actively managed duration funds with a combination of short duration corporate bonds and long duration gilts may deliver better returns for investors with 3-6 month investment horizon.

Portfolio Actions during the month

- Religare Liquid Fund

- The fund has continued to maintain a low duration. Liquid fund is maintaining a well diversified portfolio.

- Religare Ultra Short Term Fund

- The fund has also maintained a low duration & a well diversified portfolio.

- Religare Short Term Plan

- The fund has very actively changed duration with changing market conditions. The bulk of the assets are in the 6-12 month space.

- Religare Credit Opportunities Fund

- The fund has been successfully investing in mispriced credits with low interest rate risk.

- Religare Active Income Fund

- The fund has been actively trading in the liquid PSU credit segment apart from the 10 year gilt segment. The duration of the fund has been actively managed within the 12-30 months range along with exposure in the 10 year plus liquid gilts segment.



Ideas for investors

- The market opens up opportunities for investors in a developing environment of a moderating GDP growth , Core inflation and continuation of dovish RBI stance. Investors are encouraged to select funds maintaining longer duration than their investment horizon. Moreover, investors are encouraged to rebalance in 3-6 months from now
- The ***Religare Credit Opportunities Fund*** offers 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 varying credit spreads of short maturity papers.
- The ***Religare Short Term Plan*** offers accrual with reduced interest rate risk. Ideal for investors with 3-9 months investment horizon.
- The ***Religare Medium Term Bond Fund*** offers higher current yield and moderate interest rate risk. The present duration of around 13 months opens up opportunities of capital appreciation over a 9-15 month investment horizon for investors with moderate risk appetite.
- The ***Religare Active Income Fund*** - The portfolio intends to run a duration between 12-30 months. It opens up opportunities of capital appreciation in an environment of the yield curve steepening and active duration management. It is intended for investors with varied investment horizon (at least 3 months) with moderate risk appetite.



Disclaimer

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

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