

Fixed Income Markets:

Current Environment and Outlook

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Macro Economic Events - Domestic

- The fears of high inflation continues. Amidst rising food inflation inflationary expectations linger
- The drop in gold imports has led to some improvement in CAD

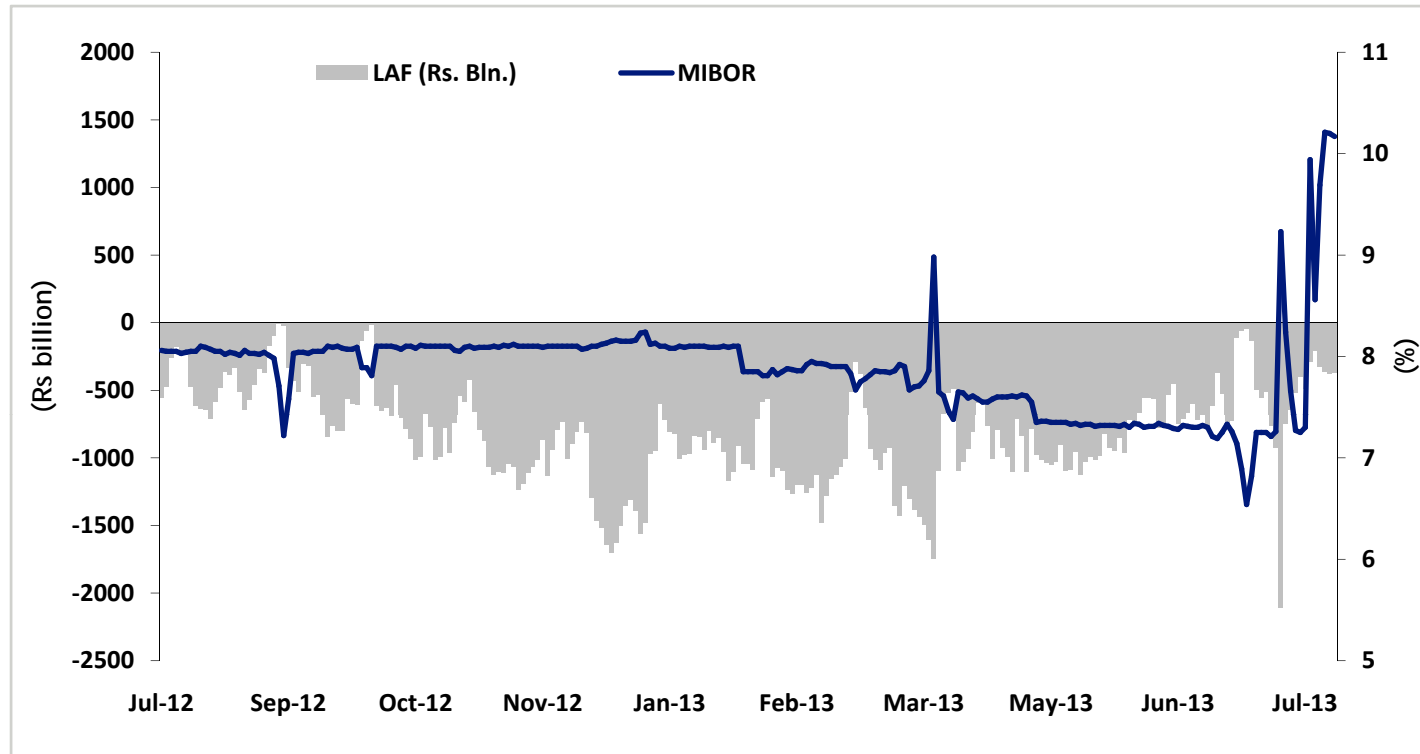
	June 13	May 13
CPI	9.87%	9.31%
WPI	4.86%	4.70%
Imports	-0.37%	7.00%
Exports	-4.60%	-1.10%

	May 13	Apr 13
IIP	-1.60%	1.90%

	Mar 13	Dec 12
GDP	4.80%	4.70%

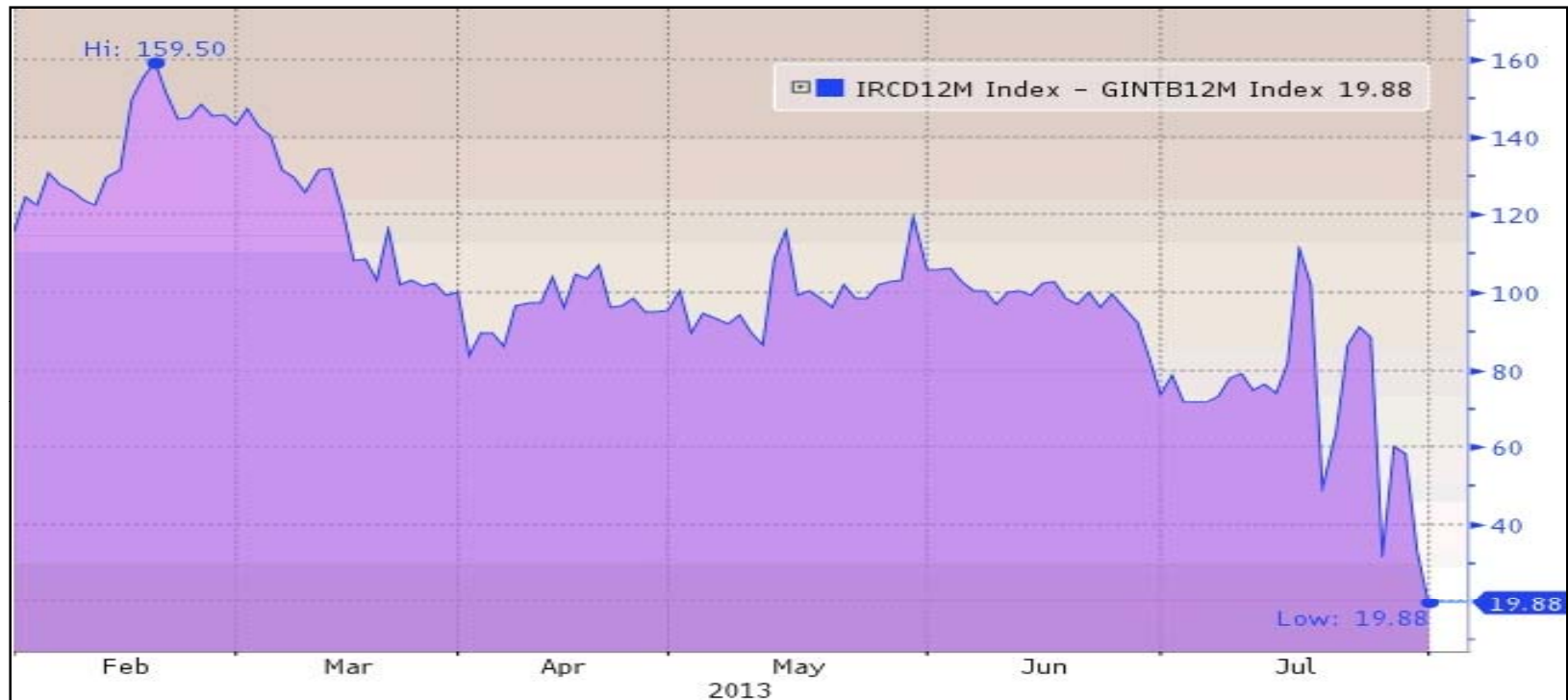
	Mar 13	Dec 12
CAD	-18.17 USD Bn	-31.77 USD Bn

Liquidity



- The liquidity tightening measures of RBI has pushed the overnight rates to double digits. The liquidity on an average for the month has remained negative by Rs. 508 billion
- This has also negatively affected the yields of near maturity securities

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



- The lack of issuances of Bank CDs in the primary market while GOI issued T-bills has led to the drop in the spreads

Inflation Dynamics



- RBI will endeavour to condition the evolution of WPI inflation to a level of 5% by March 2014

G-Sec Yield Curve

10 Year G – Sec Yield Curve



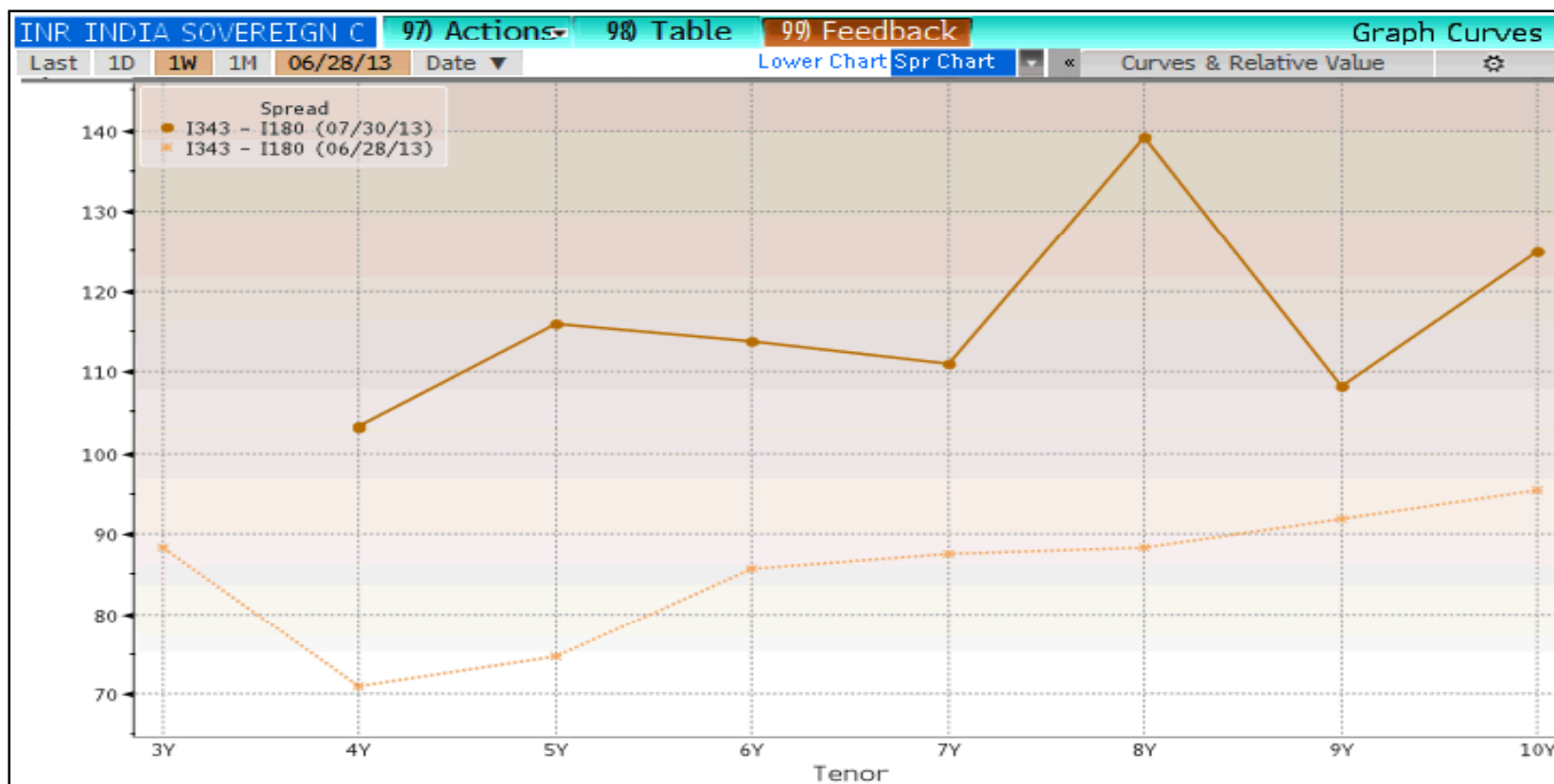
- The gilts were under a bearish undercurrent from the beginning of the month. The volatility in the currency market led RBI to announce several liquidity tightening measures viz., OMO sale, reduced LAF borrowing, hiking CRR maintenance to 99% and issuance of Cash management bills.

G – Sec Yield Curve Change



- The market was caught unaware and there was a sharp fall in the prices of the securities. While FII were net sellers in excess of \$2 billion over the month, the domestic PSU banks were net buyers in the market. The gilts curve shifted upwards.

Corporate Bond spreads widened



- The credit spreads also widened by about 100bps due to the sharp movement in the yields
- Lack of liquidity in the secondary market led to the quick expansion of spreads

Fixed Income Outlook and Opportunities

Fixed Income Market Outlook

Negatives

- Slow economic growth 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 harsh measures
- General nervousness amongst investors

Positives

- The imposition of import duty on gold imports has led to some drop in demand and hence improvement in CAD

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 3 weeks and increasing exposure to very short maturity
- **Religare Invesco Ultra Short Term Fund:** The fund is maintaining a marginal exposure to MTM assets and moderating the exposure actively. The fund is increasing the higher yielding papers in the portfolio of shorter maturities
- **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 portfolio modified duration between 2-6 years
- **Religare Invesco Gilt Fund – Short Duration Plan:** The fund has started investing in the 3 month T-bills
- **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 1 month. Investors are encouraged to select funds with duration in line with their investment horizon. 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
- The *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
- The *Religare Invesco Short Term Fund* offers accrual along with a contained interest rate risk. Ideal for investors with 3 - 6 months investment horizon
- The *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
- The *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
- The *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
- The *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
- The *Religare Invesco Gilt Fund – Short Duration Plan* – The fund investing in 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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