

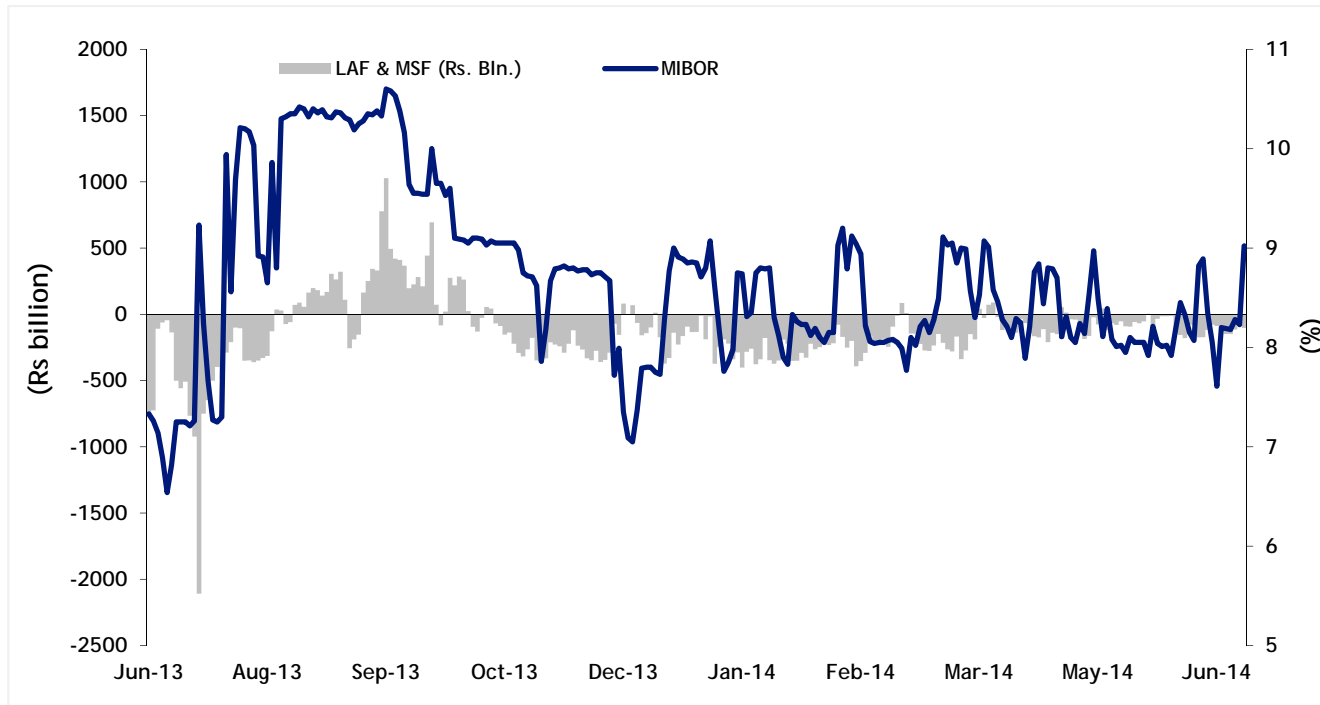
Fixed Income Market Outlook

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Macro Economic Events - Domestic

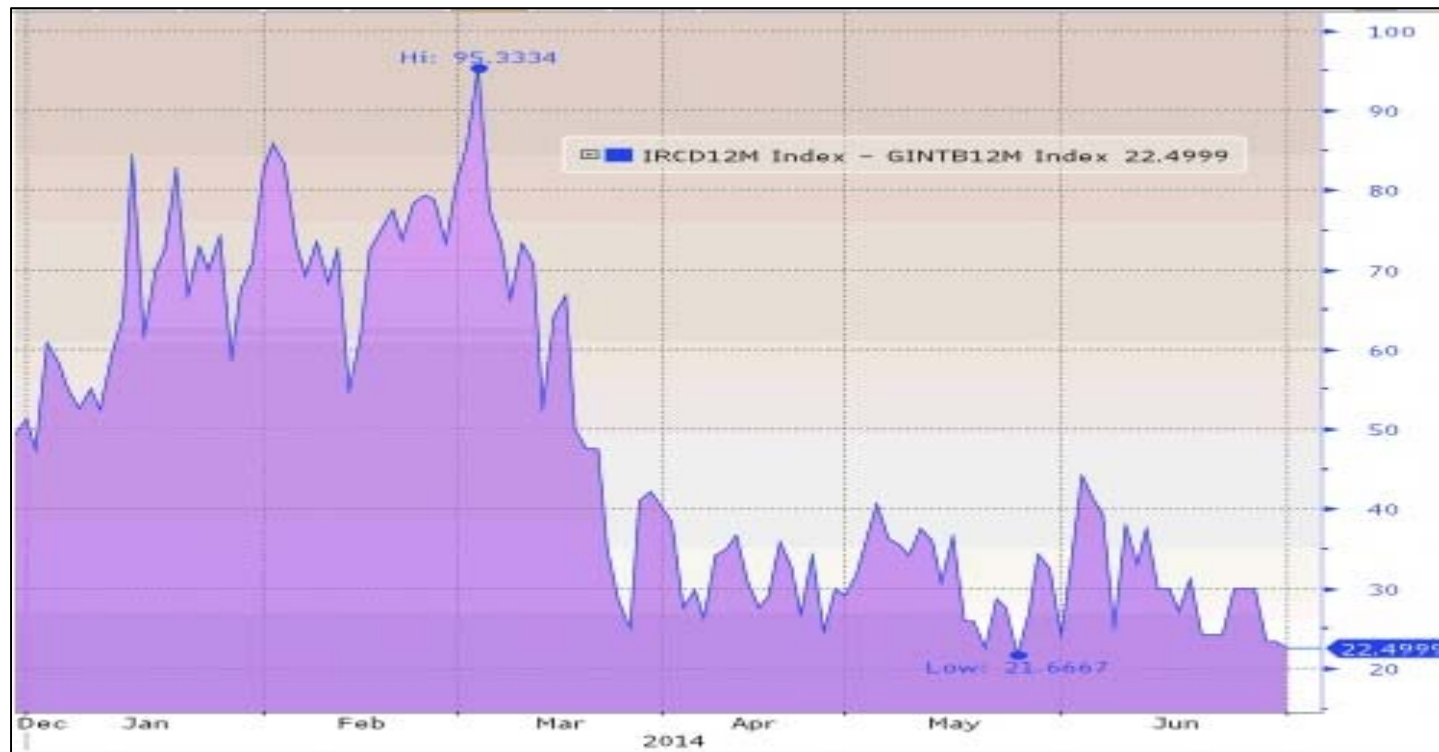
- The CPI inflation declined to 8.28% down from 8.60%
- The FII's interest in India debt increased over the quarter. They bought over \$3bn
- The forex reserves increased with higher level of foreign inflows
- The CAD improved with lower imports and higher exports growth
- The volatility in the currency market subsided over the quarter
- The industrial growth has started showing some early signs of pick up

Liquidity



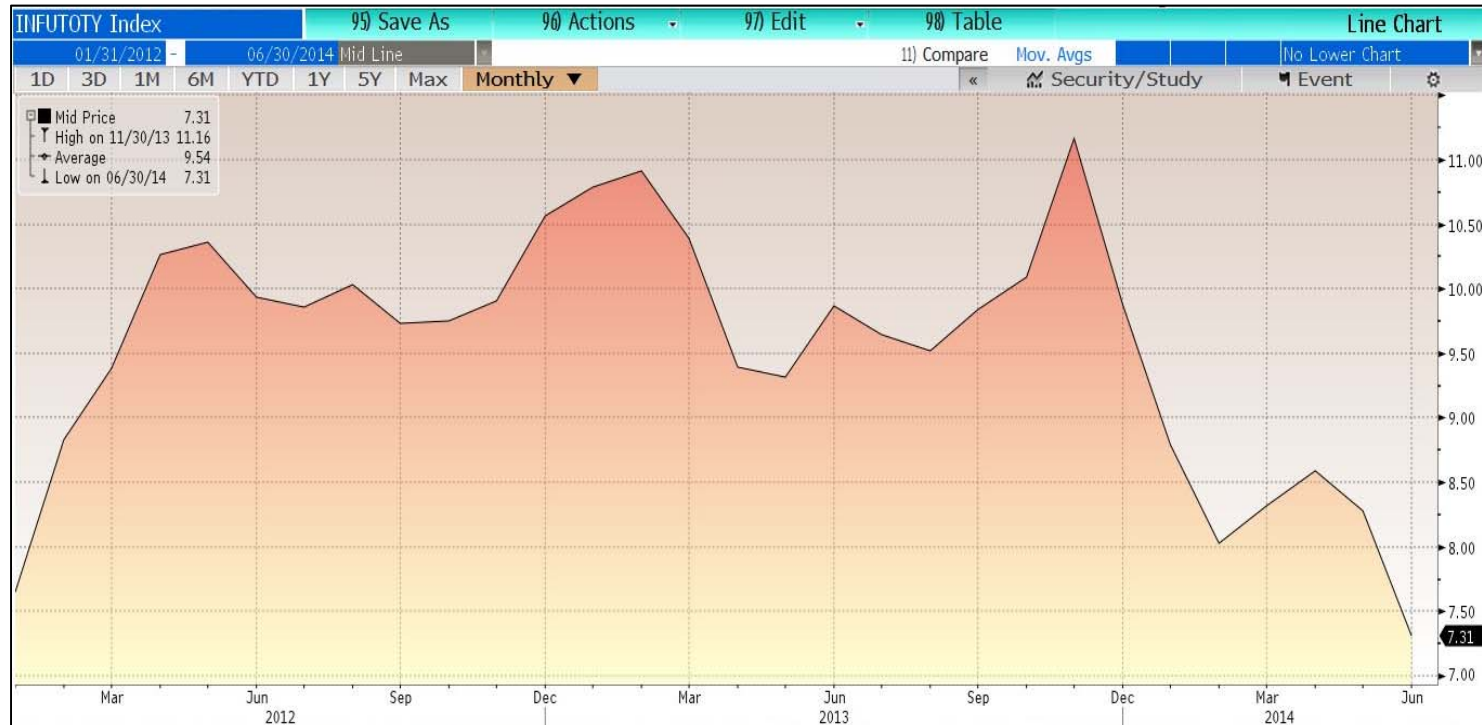
- The liquidity conditions within the banking system was tightly managed by RBI through periodic term repo auctions
- The liquidity on an average for the quarter has remained negative by Rs. 85 billion

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



- The spreads contracted as the overnight rates hovered around the repo rate and the primary issuances dropped over the quarter
- This was evident in both CD and CPs

Inflation Dynamics



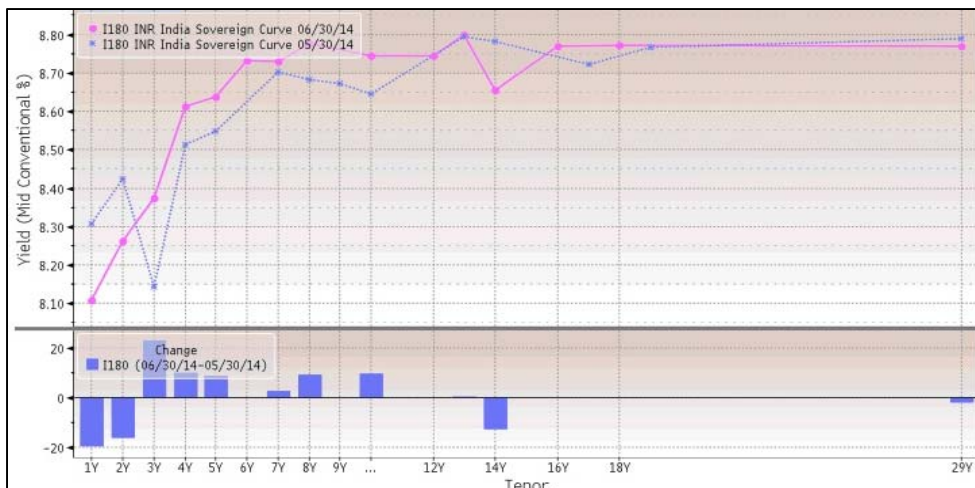
- The disinflationary effect of high repo rates was working its way through and the inflation is coming off
- The upside risks from a poor monsoon on inflation remains

G-Sec Yield Curve

10 Year G – Sec



G – Sec Yield Curve Change



- The yields of sovereign papers came off as the expectations of further rate hikes from RBI diminishes
- RBI has also commentated about an earlier beginning of a rate reduction cycle in case the inflation comes off quicker
- The decisive election results and FII's demand for Indian gilts also resulted in further softening of sovereign yields

Corporate Bond spreads contracted



- The corporate bond spreads contracted as primary supply was lower & demand was higher

Fixed Income Outlook and Opportunities

Fixed Income Market Outlook

- With a tight fiscal of 4.1% and the target to bring down fiscal deficit to 3% in 2 years bodes well for the debt market investors
- The progress of the monsoon and the effect on crude oil prices will continue to be the dampener in the market
- Expectations of a long pause before any rate reduction from RBI
- RBI might refrain from further rate hikes incase the food inflation goes higher in view of their opinion of dis-inflationary effect to play out and the glide path of CPI to be achieved over time
- The demand for corporate bonds and gilts will see a swift increase and the yields are expected to soften over time
- While the pace of decline of the yields depend on the pace of decline of the inflation, we feel that the trend seems to be reasonably established and we are expecting a gradual and slow decline in the yield levels over time
- While the benchmark yields might be expected to trade within a range of 20bps around the current level of 8.65%, a decisive movement downwards would depend on some de-escalation of the geo-political risk in the middle east and pick up in the monsoon






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 1-2 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. The fund has also indulged in tactical trades in gilts
- **Religare Invesco Medium Term Bond Fund:** The fund has actively reduced duration and maintained a duration of around 2.5 years

Ideas for investors

- Investors are urged to enter long duration funds and select funds with moderately 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 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 36 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 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


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

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

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