

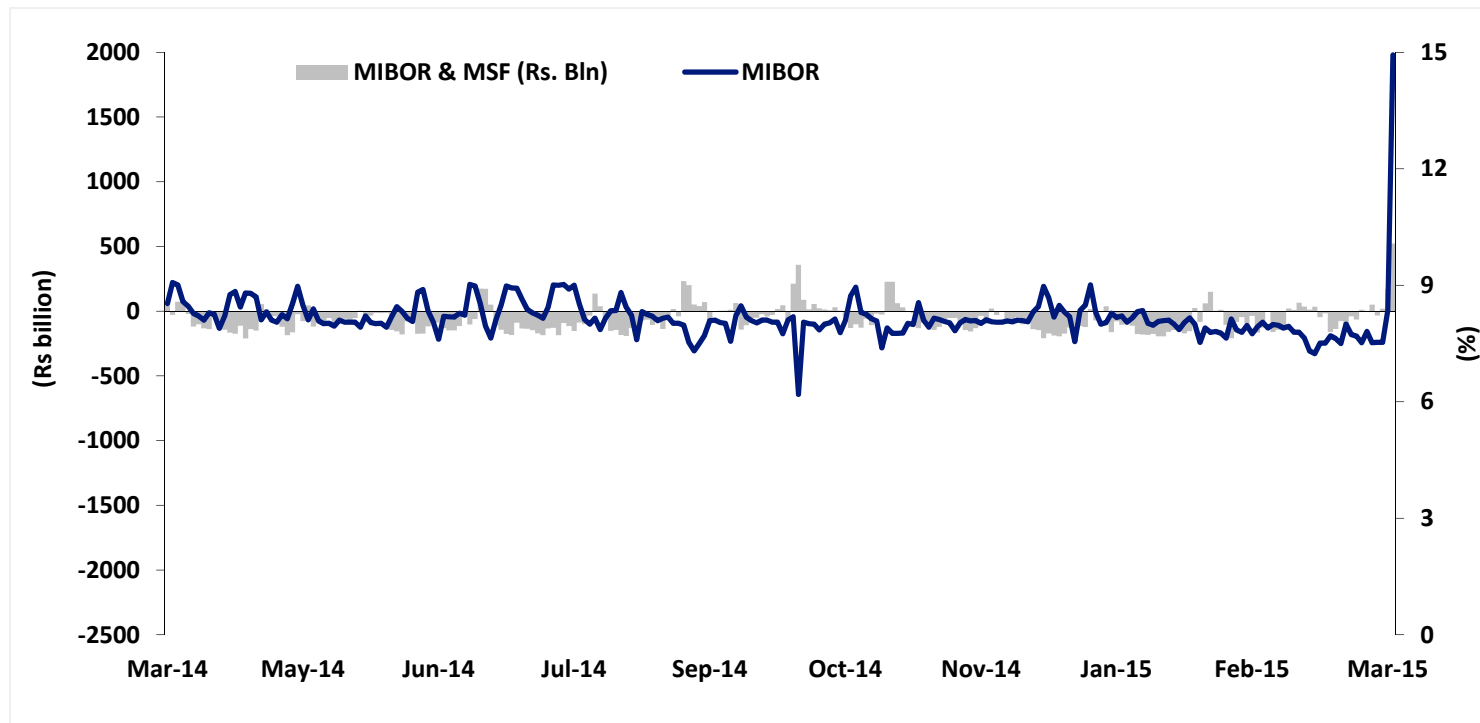
# Fixed Income Market Outlook

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**March 2015**

# Macro Economic Events - Domestic

- Over the previous 3 months, the macro data strengthened for Indian economy
  - CAD declined
  - Forex reserves increased
  - Inflation declined
  - Currency remained stable
- WPI data point is in the negative zone for the past 5 months
- RBI started accommodative stance from the middle of Jan'15 by initiating the rate decline cycle. The repo rate was reduced from 8% to 7.50% in 2 steps
- The fiscal deficit of 3.9% for FY16 and a consolidation path of achieving 3% by FY18 has helped to create the comfort for RBI to turn accommodative

# Liquidity



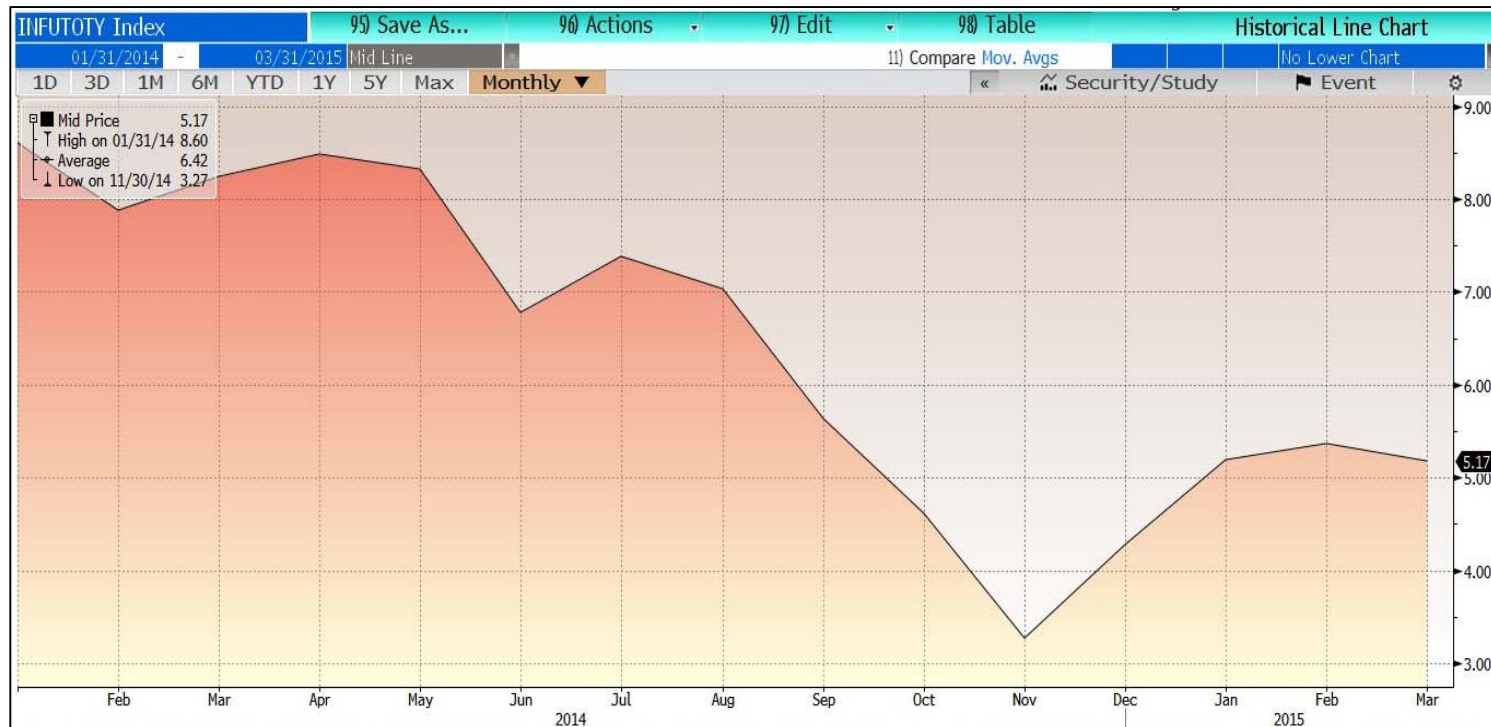
- The overnight liquidity rates were maintained around the repo rate for most of the days
- This was achieved due to RBI conducting various term repo auctions at periodic intervals and also on adhoc basis so as to smoothen out any sharp repercussions due to advance tax payments and outflows due to balance sheet considerations towards the FY end
- The liquidity on an average for the quarter has remained negative by Rs. 59 billion

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



- The spreads widened initially and then started to contract from the middle of Feb'15
- Lower supply of bank CDs led to the contraction of CD spreads over T-bills

# Inflation Dynamics



- The headline inflation was closer to 5% for the last quarter of FY15
- Lower commodity prices and better food price management, lower MSP hikes along with a stable rural wage inflation has led to containment of inflation

# G-Sec Yield Curve

## 10 Year G – Sec

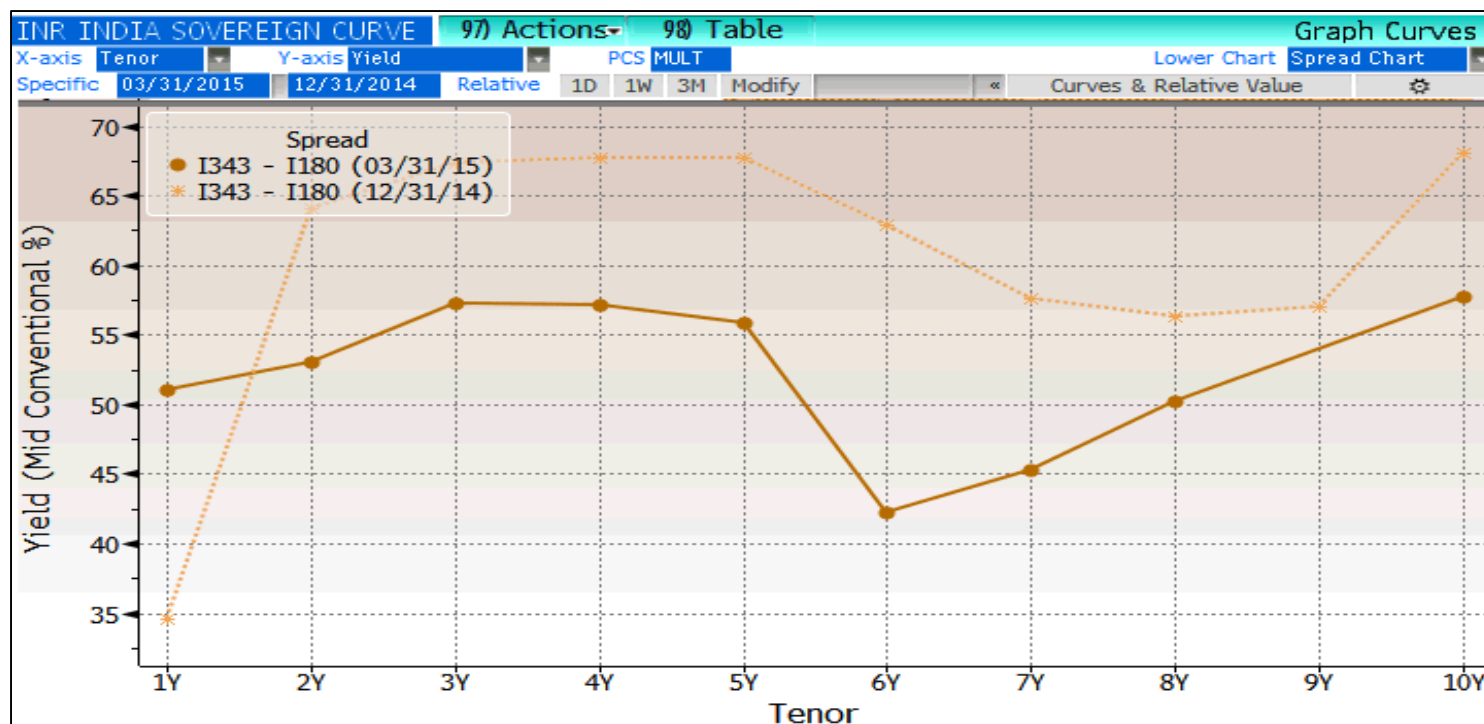


## G – Sec Yield Curve Change



- The sovereign yields traded within a narrow range of 10bps for most part of the quarter
- After a drop in yields led initially by the first rate cut the market yields refused to move lower, despite a second cut by RBI due to markets participants fear about RBI pressing the 'pause' button temporarily on rate easing cycle as the central bank awaits transmission of the previous rate reductions and incoming data on food price inflation and monsoon
- Compared to the previous quarter end the g-sec yield curve almost witnessed a parallel shift downwards

# Corporate Bond spreads contracted



- The credit spreads contracted over the previous quarter
- Strong foreign flows along with domestic demand led to the contraction



# Fixed Income Outlook and Opportunities



# Fixed Income Market Outlook

- The fixed income market is expected to witness benign inflation to continue in the foreseeable future
- The MPC agreement to achieve 4% on CPI also gives the confidence to see a sustained rate easing cycle
- The healthy forex reserves along with a stable rupee helps the cause of foreign investors and creates additional demand. The fed rate hike in time is also expected to be less of a challenge for Indian investors
- RBI may start the rate easing cycle moment it is confident on inflation and / or the inflation data undershooting RBI's expectation of 4% by Aug'15
- While the drop in oil rig count in US is expected to bring back some oil price appreciation, the upside is expected to be limited as the world demand continue to be low
- While strengthening USD remains a challenge for emerging market currencies, the strong domestic macro continues to create the buffer for shock absorption
- The real rates are expected to decline over a period of time

# 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 may benefit from the further expected reduction in the marginal standing facility (MSF) rates
- **Religare Invesco Short Term Fund:** The scheme is maintaining a duration of around 3.5 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 5% by Mar'16. They should also look to enter credit funds 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<sup>1</sup>
- 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


11 <sup>1</sup>Source: RBI, PFI: Public Finance Institution. **Note:** The above product positioning and intended duration is based on current view and is subject to change from time to time. For product labeling details ,kindly refer slide 12


# 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

# Disclaimer

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

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