Fixed Income Markets :
Current Environment and Outlook

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Macro Economic Events - Domestic

- GDP de-growth continued with a 5.3% print in the second quarter of the current fiscal from 6.7% a year ago
- Agriculture grew by 1.2% in Q2 FY13 against 2.9% in the previous quarter and 3.1% last year
- Manufacturing growth remained extremely sluggish and grew by 0.8% compared with 0.2% in the previous quarter
- Construction growth was healthy at 6.7% and helped take industry growth to 2.8%
- The most buoyant sector was finance, insurance, real estate and business services, which grew by 9.4%. This helped services sector grew by 7.2% compared with 6.9% in the previous quarter and 8.8% last year
- M3 growth rose marginally to 13.2%

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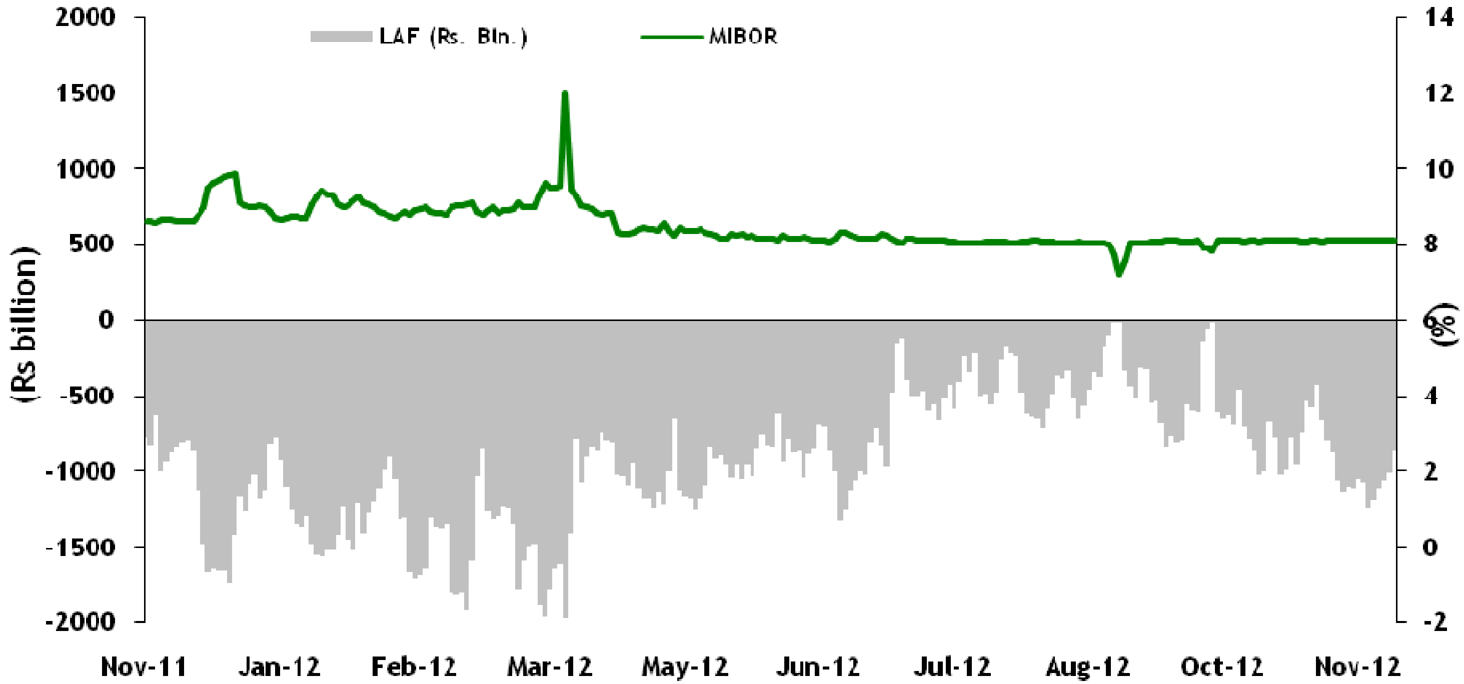
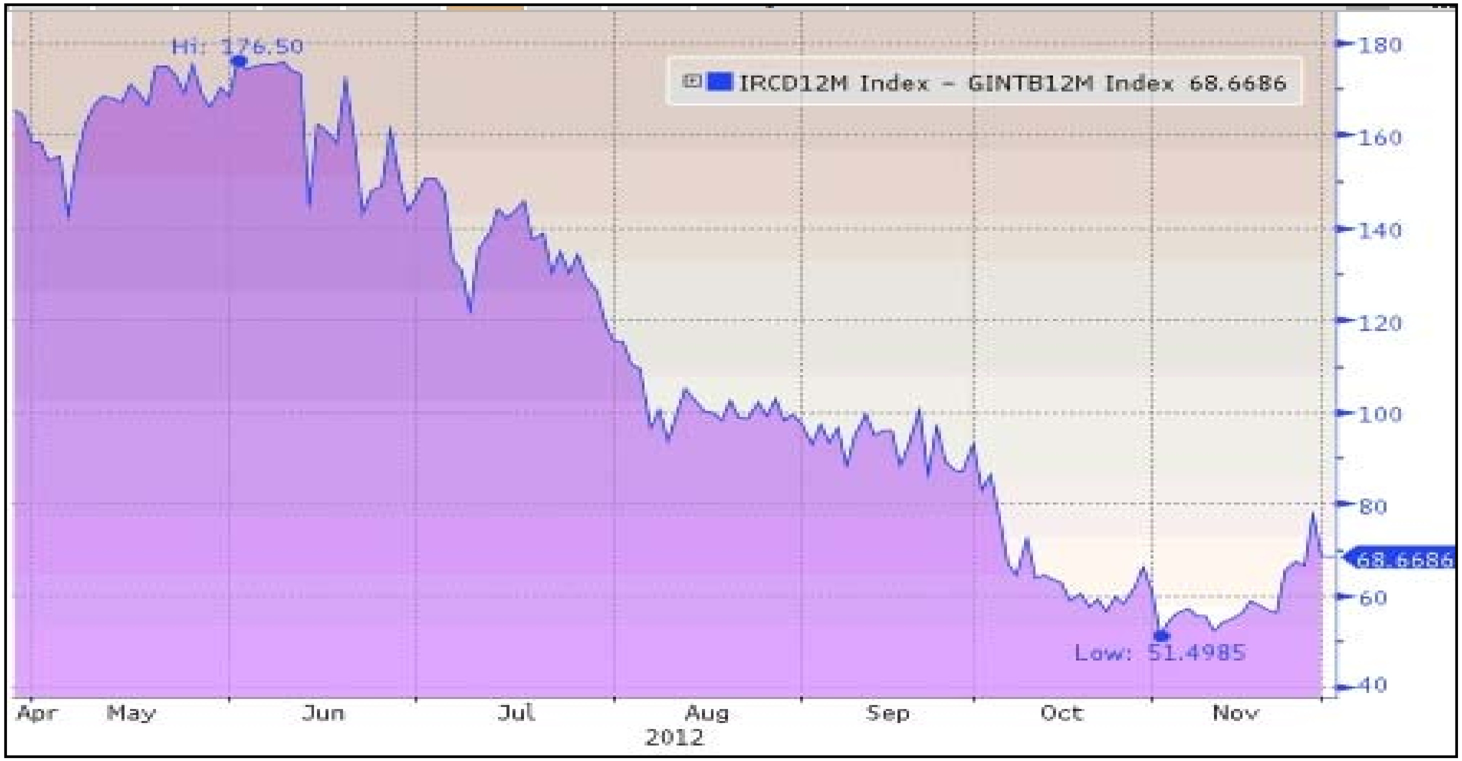
Liquidity



- The liquidity conditions dropped further over Nov'12. The CRR reduction of 25 bps to 4.25% by RBI helped alleviate the condition
- The average daily infusion was around INR 970 billion

 Source: Bloomberg

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



- The yields of money market assets traded within a narrow band of 10bps and closed at a similar credit spread of the last month (Oct'12) end

 Source: Bloomberg

Inflation Dynamics

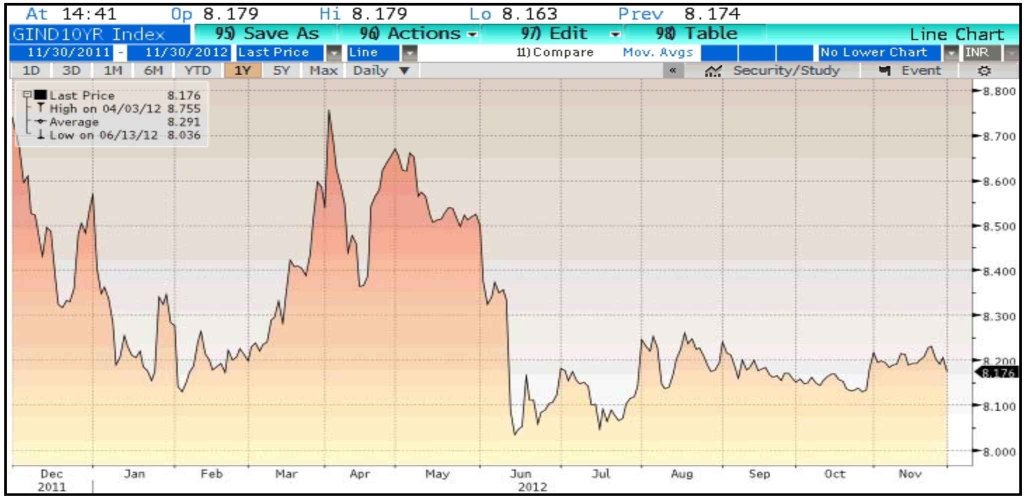
- The 3 yr average from 2009-12 of WPI was at 8.89% compared to 5.33% from 2006-09

- Market participants await RBI action from Q1'13 although WPI inflation hovers around 7.5%

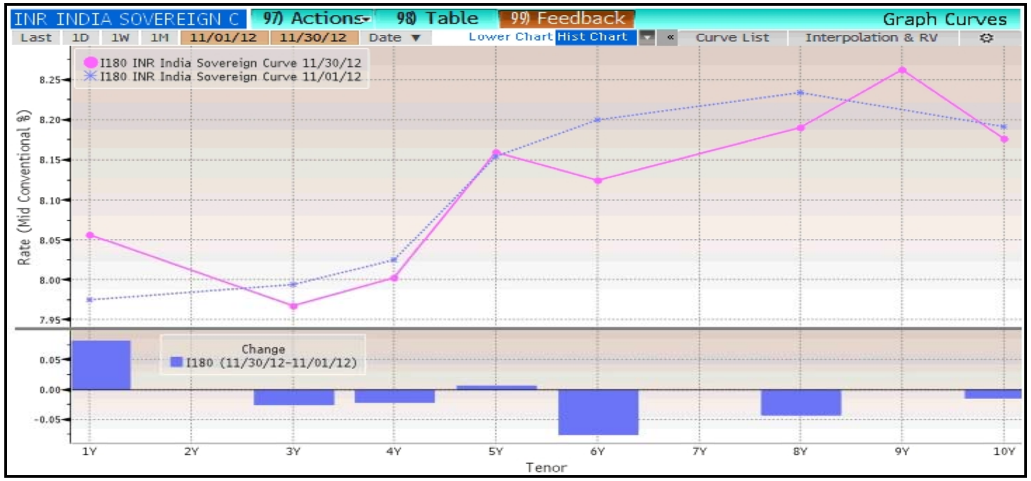
 Source: Bloomberg

G-Sec Yield Curve

10 Year G – Sec Yield Curve



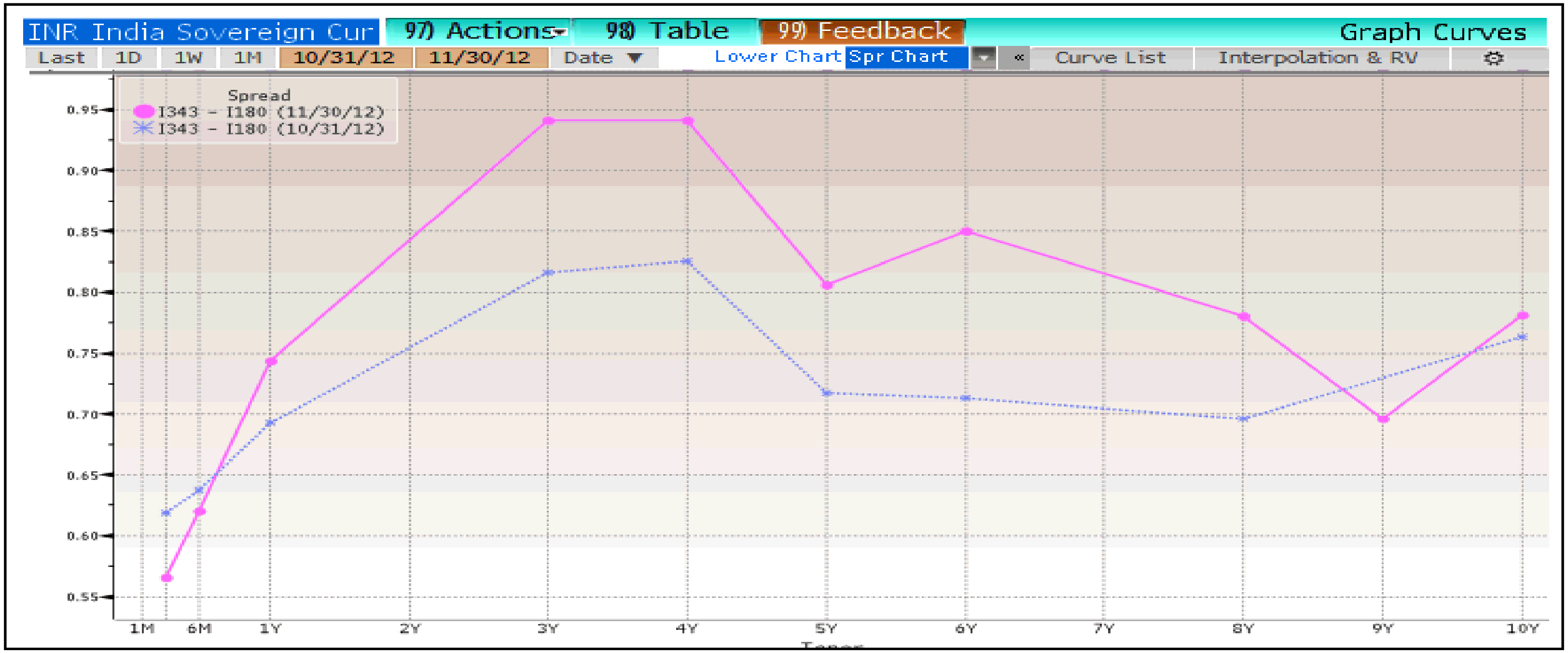
G – Sec Yield Curve Change



- Yields moved higher, post the disappointment with the Oct end RBI policy and the subsequent delay in the OMO announcement
- There were several risk factors, which were playing in the minds of market participants, including the disappointing results of the 2G auction and the slowing down of the disinvestment process
- A higher than expected additional borrowing was adding to the fear

 Source: Bloomberg

Corporate Bond Yields moved higher



- The corporate yield curve moved up sharply over the month due to negative sentiment prevailing in the market
- The credit spreads are also at historic lows

 Source: Bloomberg. I344: Indian AAA Corporate Curve, I180: INR Indian Sovereign Curve

Religare MF: Fixed Income Outlook and Opportunities

Fixed Income Market Outlook

- The CRR reductions along with OMO conducted by RBI and government spending is expected to alleviate the deficit liquidity from the new CY
- Historically, in the last quarter of any FY, the money market yields move higher as primary supply goes up, in FY13 any improvement in liquidity conditions is expected to nullify the hardening of yields to certain extent
- Risk aversion is expected from investors in favor of top quality credits, including Public Financial Institutions (PFI) during the current phase of deterioration in the asset quality within the financial system. The credit spreads are at low levels but spreads of superior credits might outperform on a relative basis
- While WPI inflation continues to worry the policy makers, some token rate reduction by RBI is expected before March'13
- While the fear of additional borrowing lingers, risk aversion is expected to create additional demand for gilts and this asset class is expected to outperform over credits
- Based on the forward guidance of a rate easing stance by RBI, the present quarter provides an excellent opportunity for investors to consider income funds with duration longer than their investment horizon
- The risk-return matrix is tilted in favor of a capital gain over the next 6-12 months

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 and following the ladder approach to investments

Religare Ultra Short Term Fund

- The fund has also maintained a low duration & a well diversified portfolio. The fund also invested upto 20% of the fund in 61 days plus maturity assets

Religare Short Term Plan

- The fund has very actively changed duration with changing market conditions. The bulk of the assets are in the 1-3 years space

Religare Credit Opportunities Fund

- The fund has been successfully investing in mis-priced credits with low interest rate risk

Religare Active Income Fund

- The fund has been actively trading in the liquid PFI credit segment apart from the 10 year plus gilt segment. The duration of the fund has been actively managed within 3 – 5.5 years range along with exposure in the 10-30 year liquid gilts segment

Religare Gilt Fund – Long Duration Plan

- The fund has been actively trading in the liquid 10 year plus gilts. Its investing upto 30 years gilts. Currently maintaining a duration of 7 years

Ideas for investors

- The market opens up several opportunities for investors in an environment of a moderating GDP growth, high inflation and forward guidance of an easing cycle by RBI. Investors are encouraged to select funds, which are maintaining longer duration than their own investment horizon. Moreover, investors are encouraged to rebalance over 6-12 months

- The ***Religare 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 Short Term Plan*** offers accrual along with a contained 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 24 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 –*** offers a superior mix of corporate debt and gilts and runs a duration between 24-72 months. It opens up opportunities of capital appreciation in an environment of the yield curve steepening thru active duration management. It is intended for investors with varied investment horizon (at least 3 months) with moderate to high risk appetite

- The ***Religare Gilt Fund – Long Duration Plan –*** It opens up opportunities of capital appreciation in an environment of risk aversion and hence higher demand for gilts. An actively managed gilt portfolio during phases of low credit spreads is intended for investors with varied investment horizon (at least 3 months) with moderate to high risk appetite

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Note: The above product positioning and intended duration is based on current view and is subject to change from time to time.

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

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