

Fixed Income Markets

Current Environment and Outlook

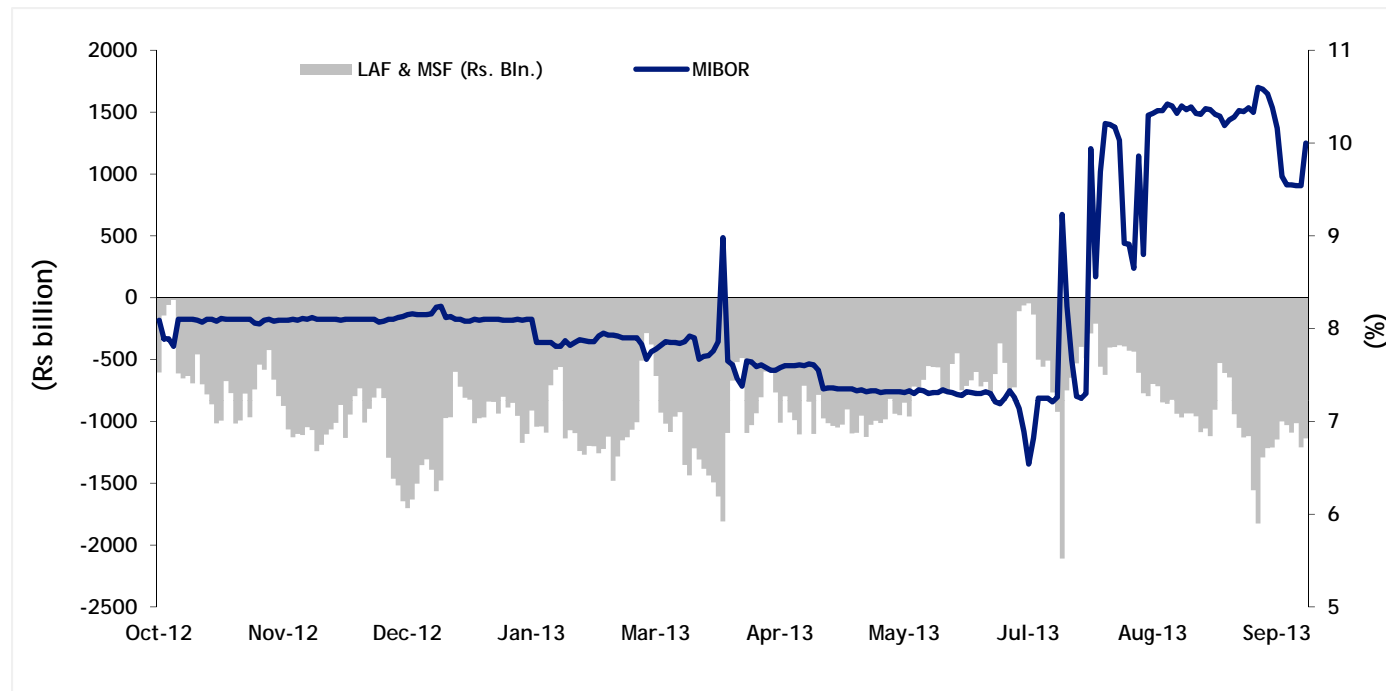
Sujoy Das, Head of Fixed Income
September 2013

Macro Economic Events - Domestic

- The WPI inflation crosses the 6% mark and threatens to move higher
- The GDP growth rate falters further

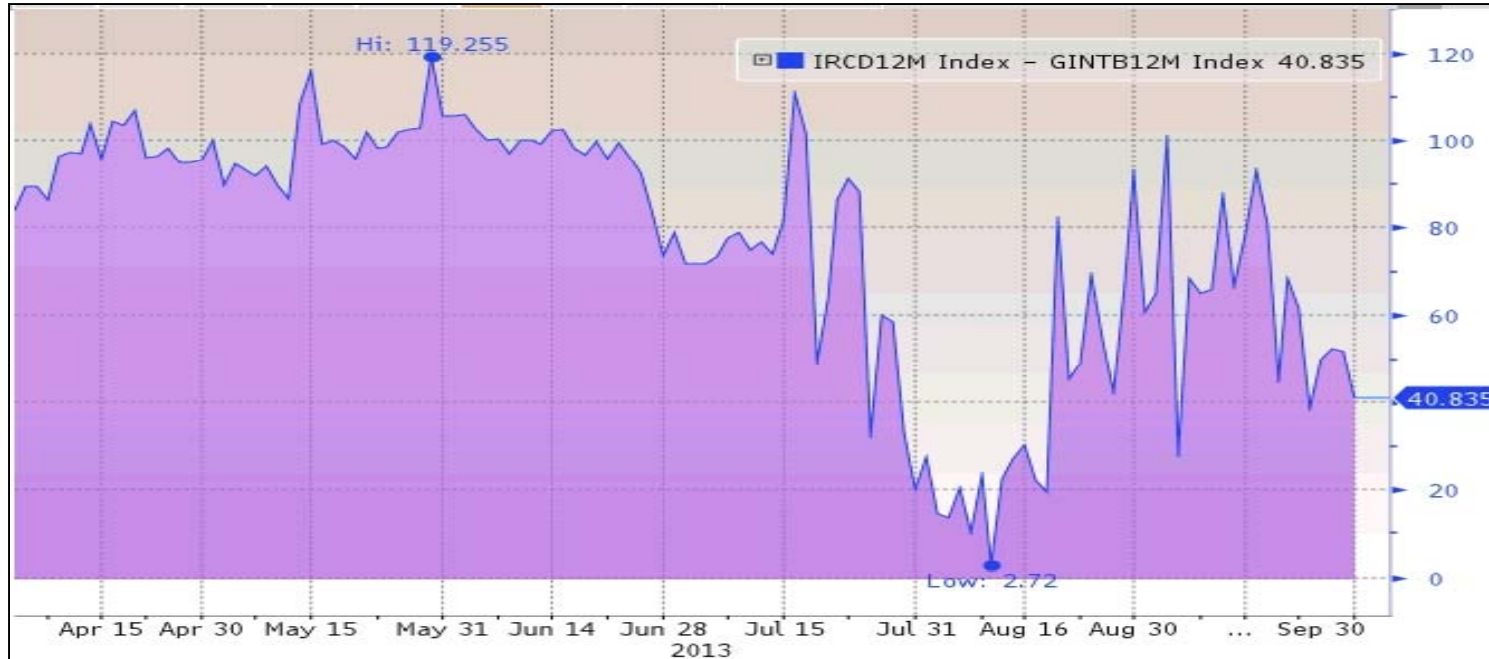
	August 13	July 13
Imports	-0.68%	-6.20%
Exports	13.00%	11.64%
	August 13	July 13
CPI	9.52%	9.64%
WPI	6.10%	5.79%
	July 13	June 13
IIP	2.60%	-1.80%
	Jun 13	Mar 13
GDP	4.40%	4.80%
	June 13	Mar 13
CAD	-21.79 USD Bn	-18.17 USD Bn

Liquidity



- The borrowings under LAF and MSF moved higher. The liquidity on an average for the month has remained negative by Rs. 1,083 billion
- The drop in the MIBOR in Sept'13 was after the reduction in the MSF rate from 10.25% to 9.50%

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



- Absence of any big primary issuance led to drop in the spreads of money market securities
- Absence of any Cash Management Bills (CMBs) issuance also led to drop in credit spreads

Inflation Dynamics



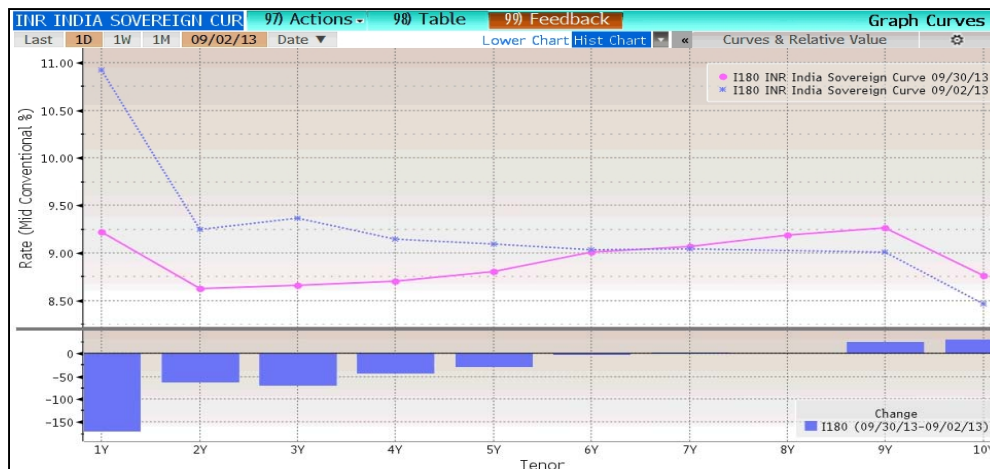
- The depreciation of INR vis-à-vis USD and the higher food inflation led to a rise in the WPI inflation
- The inflation in March 2014 might be higher than the target of 5% (as specified by RBI)

G-Sec Yield Curve

10 Year G – Sec



G – Sec Yield Curve Change



- The sovereign market experienced high volatility over the previous month
- A relatively stable currency and some appreciation compared to the USD led to a belief that RBI might be in a position to reduce the tightening measures
- The delay in Fed tapering also helped improve the market sentiment before the credit policy
- The surprise repo rate hike in the credit policy unnerved the market and the yields hardened sharply expecting further hikes amidst rising inflation

Corporate Bond spreads unchanged



- The credit spreads were largely unchanged over the month with a marginal hardening bias

Fixed Income Outlook and Opportunities

Fixed Income Market Outlook

- The uncertainty in the fixed income market continues to rule high
- The markets are looking forward to the following set of events:
 - Further repo rate hikes in case there is a northward movement of inflation
 - Reduction in Marginal Standing Facility rate, in case there is a drop in currency volatility or improvement in the value of currency
 - Improvement in CAD position
 - Deterioration in the fiscal deficit situation
 - Drop in tax revenue collection
 - Repercussions due to the shutdown of the US government. There is a chance of delay of the fed tapering too
 - Decision on repayment of US debt obligation
- The shape of the yield curve is expected to steepen over time as the chances of MSF rate reduction and repo rate hike increase
- The liquidity assurance from RBI in the form of OMO should keep the yields of government securities low
- While the positives of an OMO should keep the yields low, the fears of higher repo rates will dampen such a positive trend

Portfolio Actions during the month












- **Religare Invesco Liquid Fund:** The fund has been reducing the duration to close to 2 weeks and increasing exposure to very short maturity securities apart from Cash Management Bills (CMBs) and T-bills
- **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 7-9 months and benefit from the reduction in the marginal standing facility (MSF) rates
- **Religare Invesco Short Term Fund:** The fund is maintaining a duration little over 1 year largely comprised of the AAA PFI segment. The exposure in the 3 year 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 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 duration between 2-6 years
- **Religare Invesco Gilt Fund – Short Duration Plan:** The fund has started investing in the 3 month T-bills and short maturity CMB. Maintaining the portfolio duration around 1 month
- **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 between 1-2 years

Ideas for investors

- The market volatility has gone up significantly over the last 2 months. Investors are encouraged to select funds with duration in line with their investment horizon or shorter. 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
- *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 12 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* – 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
- *Religare Invesco Gilt Fund – Short Duration Plan* – The fund investing in CMB & upto 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.

Get in touch

Corporate Office:

Religare Invesco Asset Management Company Private Limited

GYS Infinity, Paranjpe 'B' Scheme, Subhash Road,

Vile Parle (E), Mumbai - 400057

T +91 22 67310000 F +91 22 28371565

To invest:

Call 1800-209-0007 Δ sms 'Invest' to 56677

Invest Online www.religareinvesco.com

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