RELIGARE Invesco Mutual Fund

Fixed Income
Market Outlook

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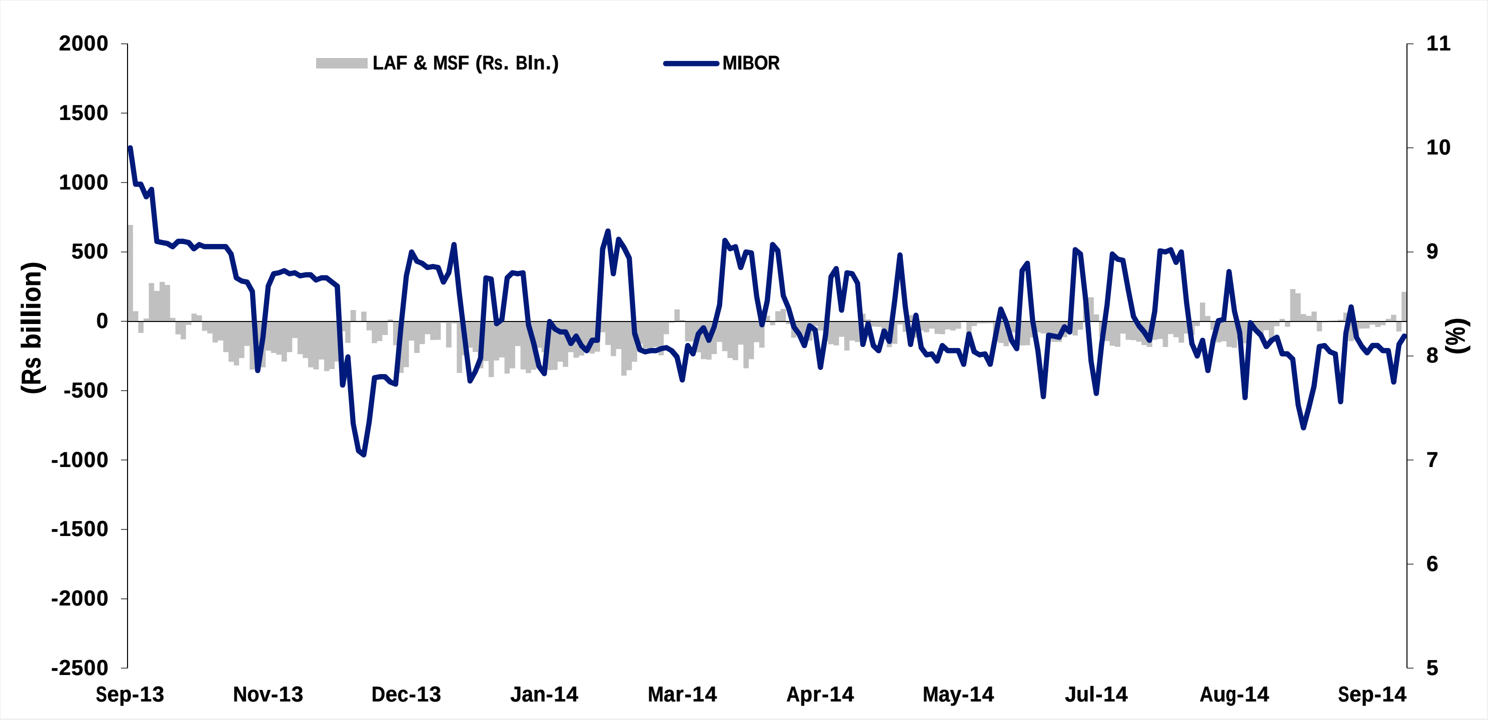
Macro Economic Events - Domestic

- The inflationary conditions within the economy have cooled off. The CPI inflation has moved lower to 6.46% in Sept'14 over the quarter from 7.46% in June'14
- The WPI inflation has also come down to 2.38% in Sept'14 from 5.66% in June'14
- The currency traded within a narrow band and was relatively stable
- The progress of the monsoon was better after a slow start. The overall rainfall deficiency for the entire season was around 11% from the long term average
- The drop in international crude oil prices and other commodity prices along with a drop in the price of green vegetables helped in improving the inflation
- RBI maintained guard against inflation and kept the monetary rates high
- The foreign inflows into the Indian debt market touched a high of $45bn in Sept'14 from $35 bn in June'14
- There was no further accretion to the forex reserves by RBI. Some portions of the reserves were used for currency management

Source: Bloomberg. WPI: Wholesale Price Index, CPI: Consumer Price Index, CAD: Current Account Deficit.

Liquidity



- The liquidity condition within the banking system was well managed by RBI. The liquidity on an average for the quarter has remained negative by Rs. 51 billion

- The introduction of term repo auctions on a regular basis helped in reducing the volatility in the overnight rates market

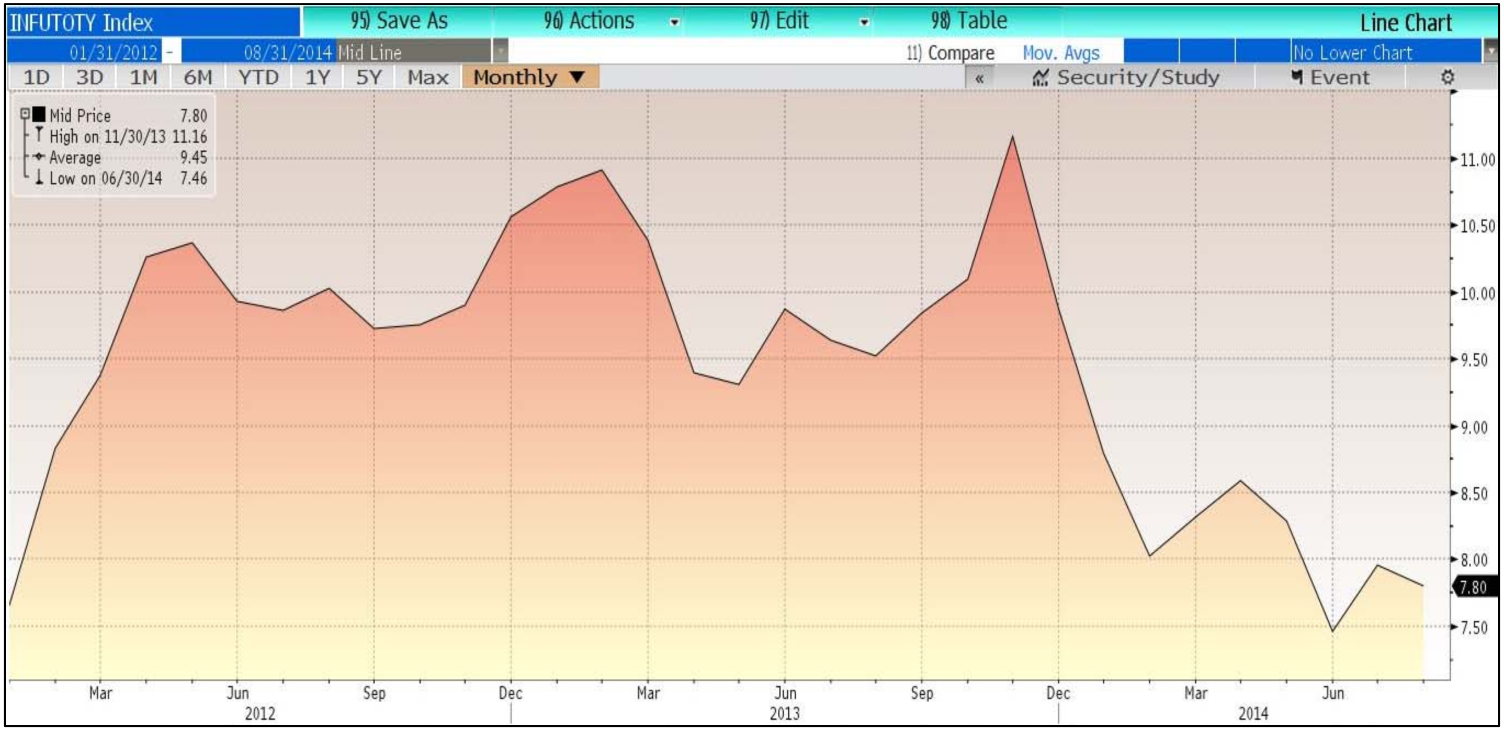
Source: Bloomberg. LAF: Liquidity Adjustment Facility, MSF: Marginal Standing Facility. MIBOR: Mumbai Inter-Bank Offer Rate

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

- The spreads in the Bank CD market for the 1 year tenor moved up by about 25 - 30bps over the previous quarter
- Higher demand from the banking industry for T-bills led to the widening of spreads

Source: Bloomberg

Inflation Dynamics



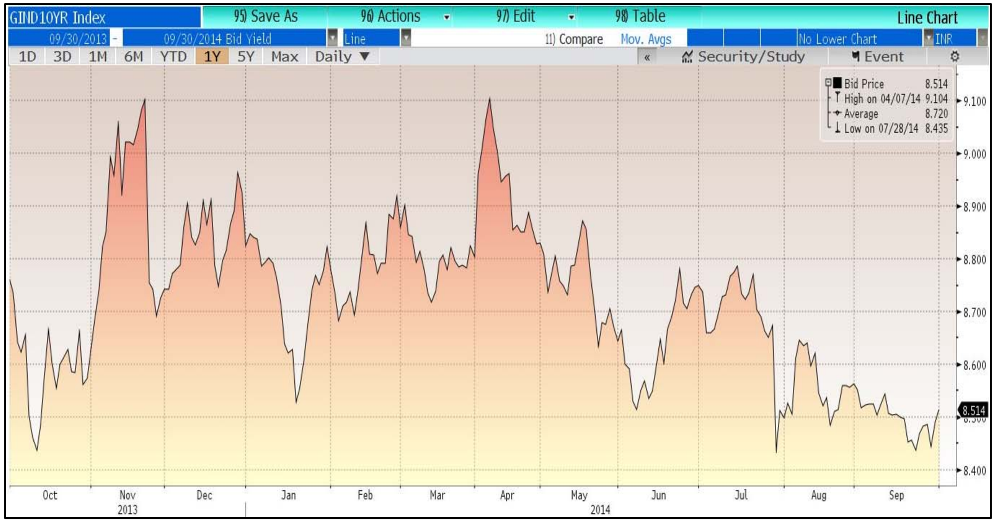
- The drop in the domestic food prices along with the drop in the international crude oil prices helped in bringing down inflation

Source: Bloomberg. The above chart represents CPI Index.

G-Sec Yield Curve

RELIGARE Invesco Mutual Fund

10 Year G – Sec



G – Sec Yield Curve Change

- The demand for gilts was seen from both domestic and overseas investors
- The limit of $25bn under the FII quota for sovereign was almost extinguished during the previous quarter
- The small drop in the supply of G-secs by government also helped in keeping the market sentiment positive
- At times, the rally in the sovereign market was inter-pierced by RBI through OMO and hawkish stance in the monetary policy

 Source: Bloomberg. OMO: Open Market Operations.

Corporate Bond spreads contracted at the shorter end

- The credit spreads of bonds contracted over the quarter due to higher demand as credit conditions improved

Source: Bloomberg. I343: Indian PSU AAA Curve, I180: INR Indian Sovereign Curve

Fixed Income Outlook and Opportunities

Fixed Income Market Outlook

- Superior public debt management by government and collection as per budgeted gross tax revenue growth over the previous 6 months gives comfort on meeting the fiscal deficit target

- The swift decline in inflation and inflationary conditions will help in keeping the bond yields soft over the quarters

- RBI might hold on to high monetary policy rates for more 1-2 quarters, in order to bring CPI down to the 6% target by Jan'16

- The outperformance in corporate bonds is expected to continue as the credit conditions improve and we observe more upgrades to downgrades. The spreads of non-AAA bonds is expected to contract in the near term as the risk appetite goes up in the financial markets and the demand conditions start to improve within the system

- While the pace of decline of the yields depends 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 a period of time

- The benchmark yields are expected to move lower over a period of time with some inter-pierce expected from RBI in case of a swift pace

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 of around 2 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 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 reduced its duration to under 6 months in order to stay away from the volatile rates market as the commencement of the rate decline gets pushed out into the future

- **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 1 year. The fund has also indulged in tactical trades in gilts

- **Religare Invesco Medium Term Bond Fund:** The fund has actively managed duration and maintained a duration of under 2.5 years

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

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 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 of high accrual for investors in the near term

- 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

- Religare 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

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Product Labeling

RELIGARE Invesco Mutual Fund

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)
Religare Invesco Corporate Bond Opportunities Fund Open- ended Income Scheme	a)	Income and capital appreciation over medium to long term
	b)	Provide return and capital appreciation by investing in corporate debt securities of varying maturities across the credit spectrum.
	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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