Invesco Mutual Fund

Update on Invesco India Gilt Fund

(An open ended debt scheme investing in government securities across maturity. A relatively high interest rate risk and relatively low credit risk.)

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Scheme Name

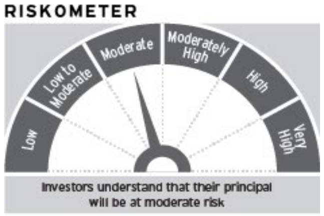
Invesco India Gilt Fund

Potential Risk Class			
Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)			
Moderate (Class II)			
Relatively High (Class III)	A-III		

Suitable for investors who are seeking*:

- credit risk free returns over medium to long-term
- investments primarily in securities issued and guaranteed by the Central and the State Government across maturities

***Investors should consult their financial advisers if in doubt about whether the product is suitable for them.**



Recent updates

- US FOMC maintained a status quo on policy rates in its January 2024 policy review. US Fed signalled possible easing of interest rates in 2024 but pushed back the March 2024 rate cut expectations citing the requirement of more prints on benign inflation to gain greater confidence.

- Indian Government continued with the fiscal consolidation approach in Interim Budget 2024-25[1]
  - Fiscal deficit estimates for FY25 are projected at 5.1%, lower than consensus expectations for 5.3%-5.4%. Also, government remains focused on reducing the fiscal deficit to below 4.5% for FY26.
  - The gross and net market borrowings through dated securities for FY25 are estimated at Rs.14.13 lakh crs and Rs.11.75 lakh crs respectively, lower than FY24 gross and net borrowing budget estimates of Rs.15.40 lakh crs and Rs. 11.80 lakh crs respectively.

- MPC maintained status quo on policy rates and stance[2]
  - FY25 inflation guidance at 4.5% reflects continued moderation even as global factors & food inflation remains uncertain.
  - No meaningful announcement to immediately ease systematic liquidity.
  - External factors remain healthy with FPI / ECB inflow & adequate Fx reserve.
  - Overall, it doesn’t disrupt expectation of rate cuts in H2CY2024.
  - It **re-affirms our view that market focus will remain on demand-supply dynamics, which is looking favorable for longer tenor G-Secs, especially after the Government’s aggressive fiscal consolidation.**

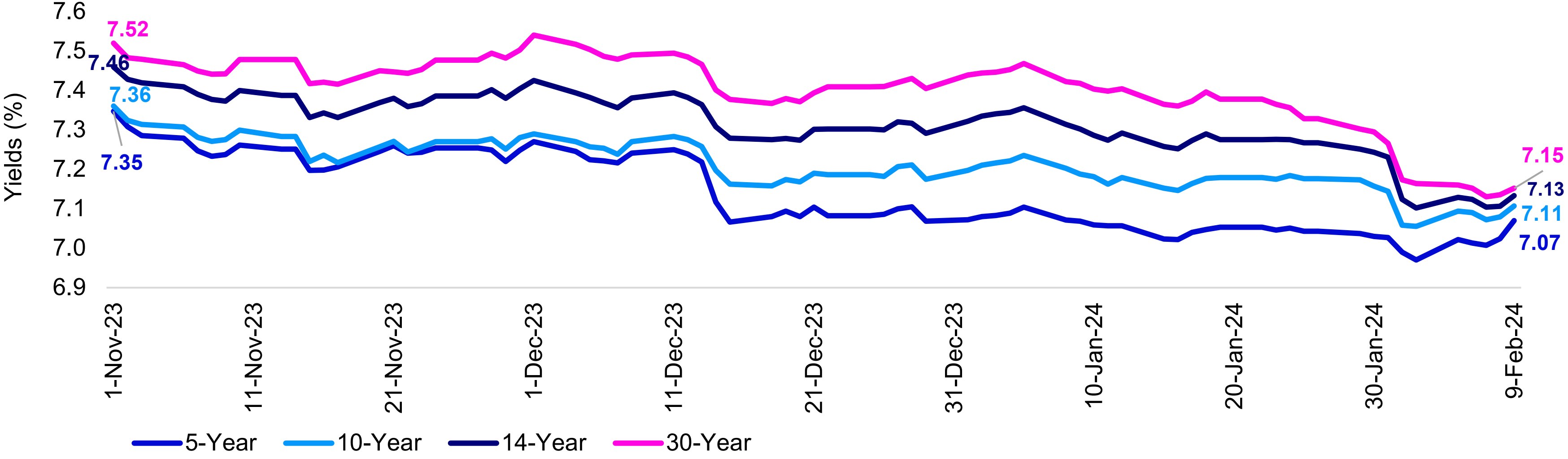
- SDL supply continued to undershoot its calendar amount with states borrowing only 78% of their calendar amount in January 2024. We expect the trend of lower borrowing to continue in coming months.[3]

FOMC - Federal Open Market Committee, MPC – Monetary Policy Committee, FPI – Foreign Portfolio Investment, ECB – External Commercial Borrowings, SDL – State Development Loan, FY – Financial Year

Source – [1]Budget document/speech 2024-25, [2]Monetary Policy Document - February 2024, [3]RBI.

Positive developments helped G-sec yields trend lower…

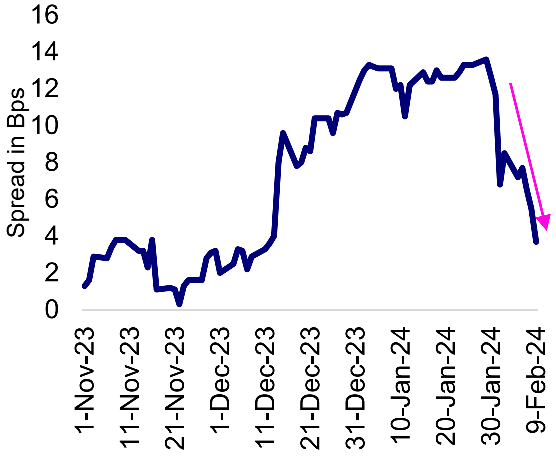
G-sec yield movement in recent months



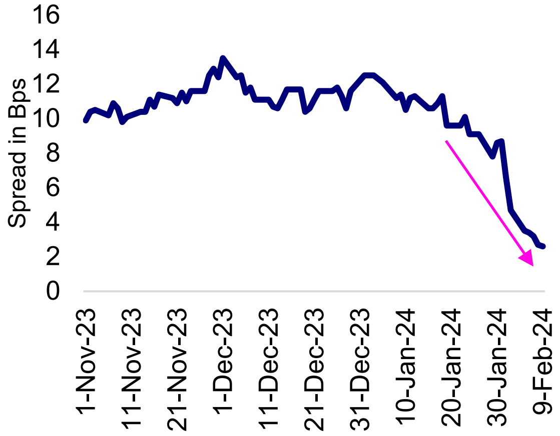
G-sec – Government Securities
Source – Bloomberg
RHS graph – Data as on February 09, 2024

…accompanied by spread compression at the longer end of the curve

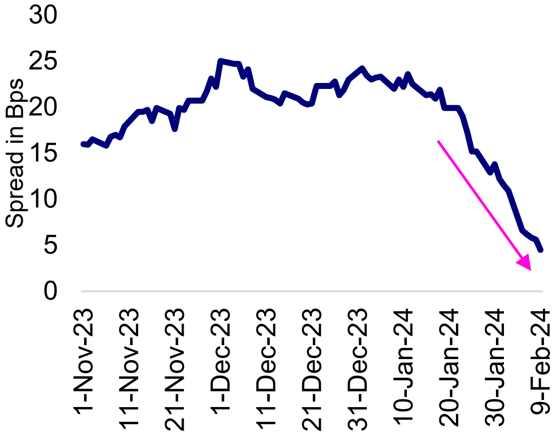
Spread between 5 years & 10 years G-secs



Spread between 10 years & 14 years G-secs



Spread between 10 years & 30 years G-secs



Bps – Basis Points
Source- Bloomberg, Data as on February 09, 2024

Demand for government securities continue to remain strong

- During January 2024, ~50% of total supply in government securities came in 14-Year and above securities thereby keeping elevated duration supply.
- However, market received this supply well as demand outstripped the supply and subsequently, spreads on longer dated securities steadily declined over 10-Year.
- Auctions in longer dated G-secs saw robust demand from long investors like Insurance companies, NPS, EPFOs and also from Mutual Funds, Traders and Banks for adding long duration papers.
- SDL spreads which stood near 55 basis points over 10-Year G-Sec in the first week of Jan'24 came down to ~35 basis points as of Feb 9'24.
- Last quarter of a FY normally sees a high inflow for long investors. Coupled with limited G-sec supply as G-sec auction gets over in mid-February 2024, **We expect the trend in longer tenor G-Sec demand to continue over next few months.**

Supply during Jan-24 (Rs. crore)	G-sec	SDL	Total	% of total
Less than 10 years	34,000	18,200	52,200	**22%**
10 years to 14 years	32,000	39,431	71,431	**30%**
14 years & above	69,000	46,391	1,15,391	**48%**
Total	**1,35,000**	**1,04,022**	**2,39,022**	**100%**

EPFO – Employee Provident Fund Organization, NPS – National Pension System, FY – Financial Year, SDL – State Development Loans
Source – RBI. Data as on January 31, 2024

Invesco India Gilt Fund
Positioning & Strategy

Why opt for duration strategy?

- Taking cues from positive global & domestic developments, we feel interest rates are expected to go down in CY2024.
- We have been constructive on rates with opportunity for potential capital gains as we go towards the rate cut cycle. Market, being forward looking, will price in rate cuts much in advance.
- Additionally, demand – supply dynamics of G-secs is favorable specifically for longer tenor G-Sec, led by robust domestic demand and inclusion in JP Morgan global debt index.
- Many fundamental positives have not yet been factored in Indian G-secs market as the systemic liquidity remains tight. We expect the liquidity to ease out from April 2024 onwards.

How are we looking to capitalize upon this strategy?

1. **Duration strategy** - Investment preference is only in three G-sec benchmark securities i.e. 10 Years, 14 Years and 30 Years. Higher duration provides the opportunity for higher capital gains when rate cut cycle begins
2. **Spread compression –** The spreads have started narrowing and we feel that the 10 year to 30 years segment continue to offers steepness and relative attractiveness. Longer end of G-sec is expected to outperform the shorter end.
3. **Active duration management.** Ability to switch in 10,14, 30 year G-Sec based upon relative spread movement.

CY- Calendar Year

Invesco India Gilt Fund
Portfolio

Portfolio changes

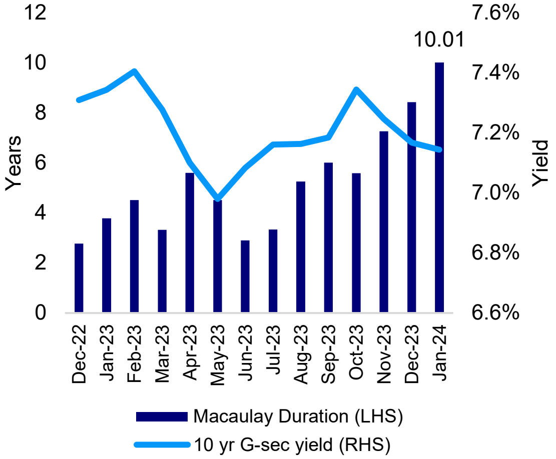
Security	% of Net Asset Nov-23	Dec-23	Jan-24	Bench-mark security	FAR Security
7.30% G-Sec 2053	14.96	23.33	46.91	Yes	Yes
7.18% G-Sec 2037	42.96	44.69	46.93	Yes	Yes
7.18% G-Sec 2033	20.66	20.42	0	Yes	Yes
7.59% G-Sec 2026	6.61	6.51	0	No	No
Cash & cash equivalent	14.81	5.05	6.16	NA	NA

Portfolio Statistics (as on January 31, 2024)	
YTM[1]	7.34%
Average Maturity	20.25 years
Macaulay Duration	10.01 years
Modified Duration	9.66 years

Fund invests in highly liquid securities

Trading Volume (January 2024)	
Security	Amount (Rs. Crore)
7.18% G-Sec 2033	4,18,952
7.18% G-Sec 2037	1,48,754
7.30% G-Sec 2053	31,697

Portfolio macaulay duration vs. 10-Year benchmark yield



FAR- Forward Rate Agreements. [1]YTM: Yield to maturity should not be construed as minimum return offered by Scheme.
Source – Internal, RBI

Way forward

- Union budget surprised the bond market positively with lower-than-expected gross as well as net borrowing and credible fiscal math.
- These fiscal numbers have acted as a catalyst for downward trend in yields given the lower-than-expected G-Sec supply, contained fiscal deficit and a commitment towards reaching fiscal deficit target of 4.5% by FY26.
- G-sec auctions are about to get over in the mid of February 2024. However, the incremental flows in rest of the quarter to investors like Insurance Companies, EPFO and NPS are expected to be deployed in longer duration securities.
- There is a decent demand for Forward Rate Agreements seen in the long duration bonds by the insurance companies.
- **This augurs well for further spread compression and reaffirms our belief in further flattening of yield curve.**
- We also retain our **expectation of rate cuts to start in H2CY2024 and are positive on longer duration securities.**

Key facts – Invesco India Gilt Fund

Type of the Scheme	An open ended debt scheme investing in government securities across maturity. A relatively high interest rate risk and relatively low credit risk.
Category of the Scheme	Gilt Fund
Investment Objective	To generate returns by investing predominantly in a portfolio of securities issued and guaranteed by Central and State Government across maturities. There is no assurance that the investment objective of the Scheme will be achieved.
Asset Allocation	Under normal circumstances the asset allocation pattern will be:

Instruments	Indicative Allocation (% of net assets)		Risk Profile
	Minimum	Maximum	High/Medium/Low
Government Securities including Treasury Bills (T-Bills)	80	100	Sovereign
Debt and Money Market Instruments	0	20	Low to Medium

Minimum Application Amount

Rs. 1,000/- per application and in multiples of Re. 1/- thereafter. For Systematic Investment Plan (SIP):

Options	Minimum Amount	Minimum Installments
Monthly	Rs. 100/- and in multiples of Rs. 1/- thereafter	6
Quarterly	Rs. 300/- and in multiples of Rs. 1/- thereafter	4

Plans[2]/ Options (Applicable to Direct Plan also)	• Growth Option • IDCW Payout option - Quarterly, Annually • IDCW Reinvestment option- Monthly, Quarterly, Annually (If IDCW under payout of IDCW is equal to or less than Rs.100/- then the IDCW would be compulsorily reinvested in the respective plan/option of the scheme)
Load	Entry Load: Nil[3] Exit Load:[4] Nil
Fund Managers	Vikas Garg and Krishna Cheemalapati
Benchmark	NIFTY All Duration G-Sec Index

[2]Direct Plan will have a lower expense ratio excluding distribution expenses, commission for distribution of Units etc. [3]The upfront commission, if any, on investment made by the investor shall be paid by the investor directly to the Distributor, based on his assessment of various factors including the service rendered by the Distributor. [4]Exit Load changed, if any , will be credited back to the scheme, net of Goods & Services Tax. IDCW: Income Distribution cum Capital Withdrawal

Disclaimer

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

Get in touch

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