

Religare Medium Term Bond Fund

(An open ended Income Scheme)

Current Fixed Income Environment

- With the latest rate hike, the central bank has raised its key policy rate by 325 basis points since March 2010. We expect the rate hikes to continue in the future.
- Stronger than expected IIP numbers (8.8%, June 2011) suggest that growth slowdown is unfounded. The corporate results in the first quarter of 2012 suggests some amount of moderation in margins. However, such moderation so far has been modest, implying that pricing power persists. The series of rate hikes is expected to impact the economy with a lag effect.
- In light of higher Inflation numbers, on both food and non-food articles, RBI might continue with the hawkish stance, till we see a visible sign of cooling off.
- However, a normal monsoon and a sell off in commodity prices globally might aid in the inflation situation in India in the coming quarters.

(Source: Internal, RBI, Bloomberg)

Religare Medium Term Bond Fund

Religare Medium Term Bond Fund aims to generate regular income and capital appreciation by investing in a portfolio of medium term debt and money market instruments. A minimum of 80% of assets will be invested in high quality debt securities having residual maturity upto 5 years.

Investment Strategy Explained

- Aims to build a portfolio which is high on accrual from an asset mix of high quality corporate securities and bonds.
- Biased towards holding assets until maturity.
- Endeavour to generate capital gains in the portfolio due to the roll down of the residual maturity of assets.
- The fund will also aim to capture positive valuation changes occurring due to changes in the shape of the yield curve.

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Risk Factors: All mutual funds and securities investments are subject to market risks and there can be no assurance that the objective of the Scheme will be achieved. Investment in mutual fund units involve investment risks such as trading volumes, settlement risk, liquidity risk, default risk including the possible loss of capital. **As with any investment in securities, the NAV of the units issued under Scheme may go up or down depending upon the factors and forces affecting the securities markets.** Past performance of the Sponsor and its affiliates / AMC / Mutual Fund and its Scheme(s) do not indicate the future performance of the Scheme of the Mutual Fund. Investors in the Scheme are not being offered any guaranteed/assured returns. **Religare Medium Term Bond Fund, an open ended income scheme, is only the name of the Scheme and does not in any manner indicate either the quality of the Scheme, its future prospects and returns. Investment Objective:** To generate regular income and capital appreciation by investing in a portfolio of medium term debt and money market instruments. **Asset Allocation Pattern:** Debt* and Money Market Instruments with maturity upto 5 years: 80%-100%. Money Market Instruments#: 0%-20%. Investment in debt and money market instrument having maturity less than one year will be for defensive consideration only. *Investment in securitized debt including pass through certificate shall not exceed 40% of the net assets. The Scheme will not invest in foreign securitized debt. #For the purpose of managing liquidity. Exposure to foreign securities shall not exceed 50% of the net assets. Maximum gross derivative position will be restricted to 50% of the net assets. The cumulative gross exposure through debt and derivative positions shall not exceed 100% of the net assets, subject to provisions of SEBI circular dated August 18, 2010 w.r.t. investment in derivatives. **Please read the Scheme Information Document(s) and Statement of Additional Information carefully before investing.** SID, SAI and Key Information Memorandum cum Application Form are available at the ISC/Distributors. **Terms of Issue:** The units are available for subscription and redemption on all Business days at applicable NAV, subject to applicable load. **Load Structure: Entry Load: Nil Exit Load:** In respect of each purchase/switch-in of units, an exit load of 1% is payable if units are redeemed/switched-out on or before 6 months from the date of allotment. In respect of each purchase/switch-in of units, no exit load is payable if units are redeemed/switched-out after 6 months from the date of allotment. **Statutory Details:** Religare Mutual Fund has been set up as a trust sponsored by Religare Securities Ltd. (liability restricted to Rs. 1,50,000) with Religare Trustee Company Ltd. as the Trustee (Trustee under the Indian Trusts Act, 1882) and with Religare Asset Management Company Ltd. as the Investment Manager.

Portfolio Attributes (as on 29th July, 2011)

- Average Maturity – 253 days, Modified Duration – 230 days.
- Bank CDs form 96.14% of the total portfolio.
- Portfolio with residual maturity below 1 year – 96.14%.
- Yield to Maturity (YTM) is 9.57%.

Performance (as on 29th July, 2011)

Period	Scheme	CRISIL Short-Term Bond Fund Index.
1 Month\$	0.43%	0.72%
3 Months\$	1.87%	1.61%
6 Months\$	3.94%	3.44%
Since Inception\$*	4.40%	3.41%

Past performance may or may not be sustained in future. * Inception Date: December 30, 2010. \$ Absolute returns. Returns are of Growth Option.

Current Outlook / Strategy

- The yield curve has shifted upwards post series of RBI's action and is currently suggesting a near peak yield. Therefore, we feel it is an opportune time to get invested, as the risk-reward ratio has again turned favourable.
- In a flat yield curve scenario, it makes sense to remain invested in the shorter end of the segment, because of favourable risk-adjusted returns expectation.
- The fund intends to continue maintaining duration of close to **1 year** for the next few months.
- The portfolio will look to remain invested in high accrual securities, thereby cushioning the ensuing volatility in the near term.
- The spread between certificates of deposits and commercial papers are in the range of 50 bps currently. We intend to move the portfolio towards higher yield securities steadily in the coming quarters.