

Correction is Temporary. Growth is Permanent!

It's human nature to be risk-averse, so when interest rates rise the first thing investors do is worry about the risks involved. The list of worries about rising rates is long and varied. For some, it may be Principal losses in their investments in fixed return instruments, Lower valuations in stocks because of competition from bond yields or Higher inflation which will impact their returns on a longer term.

The 10-year yield is more commonly considered as the 'Sensex' of the bond markets. Its movement reflects the sentiment in the money market. Rising yields are considered negative for debt mutual fund investors, especially investors in long-term debt schemes. Bond yields and prices move in opposite directions. When yields move up, prices fall. That means, the NAV of the debt mutual fund scheme falls when the yields of securities go up. The yields of the Indian 10-year government security had recently touched 8.25%, the highest in the last four years and levels that had been psychologically high as per Indian investors.

Interest rates rising further could cause investors potential loss. But rising rates are not all bad.

If we analyse the movement of Indian 10-year Benchmark, since 2000, after it has touched 8.25% levels, the returns generated in the time period after the point it has hit 8.25% have been consistently positive.

| Month | 10-year Benchmark Yield |
|-----------|-------------------------|
| 29-Dec-01 | 8.29% |
| 07-Aug-06 | 8.25% |
| 13-Jun-07 | 8.25% |
| 03-Oct-08 | 8.30% |
| 16-Aug-12 | 8.26% |
| 04-Nov-14 | 8.26% |

Source - Bloomberg

Different period returns from the highs of 8.25% are represented in the table below

| Month | 1 Year Return | 3 Year Return | 5 Year Returns | 10 Year Returns |
|----------------|---------------|---------------|----------------|-----------------|
| 29-Dec-01 | 21.17% | 9.89% | 8.02% | 7.32% |
| 07-Aug-06 | 9.94% | 9.21% | 7.40% | 8.48% |
| 13-Jun-07 | 7.66% | 8.59% | 7.84% | 8.78% |
| 03-Oct-08 | 12.14% | 7.41% | 7.18% | -- |
| 16-Aug-12 | 3.11% | 9.17% | 9.62% | -- |
| 04-Nov-14 | 11.42% | 9.75% | -- | -- |
| Average | 10.91% | 9.00% | 8.01% | 8.19% |

Source – Bloomberg and internal calculations. CRISIL Dynamic GILT is considered for the purpose of calculating returns

From the above table, it can be seen that, an investor would have generated a CAGR of 9.00% on an average if one would have invested for 3 years when the 10-year benchmark was at any of the days. The hardening of yields provides an opportunity to generate positive returns over a medium to long period of time. Hence, one could consider investments in duration products like GILT Funds and Income Funds. Additionally, to ride in the volatility, one could also look at Dynamic Bond Funds.


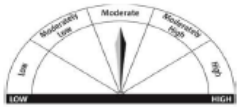
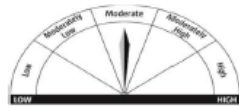
Canara Robeco offers such duration products which could be best suited for investments at such a time. With the current 10-year benchmark trading around 8.25% levels, **Canara Robeco GILT Fund, Canara Robeco Income Fund and Canara Robeco Dynamic Bond Fund** could be looked for the purpose of investments over medium to long term.

CANARA ROBECO

| Scheme Name | Category | Type of Scheme | Product Positioning | Quants* |
|--|------------------------------|--|---|---|
| Canara Robeco Income Fund | Medium to Long Duration Fund | An open ended medium-term debt scheme investing in debt & money market instruments such that the Macaulay duration of the portfolio is between 4 years – 7 years. (Portfolio Macaulay duration under anticipated adverse situation is 1 year to 7 years) | Canara Robeco Income Fund is an open ended medium-term debt scheme investing in debt & money market instruments such that the Macaulay duration of the portfolio is between 4 years –7 years (defensive circumstances between 1 year and 7 years). Fund manager takes an active view of the interest rate movements. Based on the interest rate view, the duration of the portfolio will be decided along with the asset allocation pattern between sovereign & corporate bonds. As majority of the portfolio gets invested in high quality debt papers, which provides consistent accrual income to the portfolio. | Average Maturity – 2.66 Years Modified Duration – 2.13 Years Yield to Maturity – 8.78% |
| Canara Robeco Dynamic Bond Fund | Dynamic Bond | An open ended dynamic debt scheme investing across duration | Canara Robeco Dynamic Bond Fund intends to invest and trade in G-secs and Corporate Debt by identifying mispriced opportunities & capturing volatility trends. The fund aims at generating Alpha through free-style duration management depending on the interest rate view. At the same time, it endeavours to capture accruals in the form of portfolio running yields on high-quality debt instruments. | Average Maturity – 1.61 Years Modified Duration – 1.23 Years Yield to Maturity – 6.93% |
| Canara Robeco Gilt Fund | Gilt Fund | An open-ended debt scheme investing in government securities across maturity | Canara Robeco Gilt Fund invests in G-Secs of varying maturity issued by Reserve Bank of India (RBI). Being invested in sovereign papers, the fund does not expose its investors to Credit Risk as in the case of other bond funds. | Average Maturity – 2.02 Years Modified Duration – 1.56 Years Yield to Maturity – 7.43% |

* Data as on 28th Sept'18

Product Labelling:

| S. No | Category of Scheme | Name of the Scheme | This product is suitable for investors who are seeking* | Riskmeters |
|-------|------------------------------|--|--|---|
| 1 | Medium to Long Duration Fund | Canara Robeco Income Fund (erstwhile Canara Robeco Income) | <ul style="list-style-type: none"> Income / Capital appreciation over Medium to Long term Investment in debt & money market instruments such that the Macaulay duration of the portfolio is between 4 years and 7 years (Portfolio Macaulay duration under anticipated adverse situation is 1 year to 7 years) |  <p>Investors understand that their principal will be at Moderate risk</p> |
| 2 | Dynamic Bond | Canara Robeco Dynamic Bond Fund | <ul style="list-style-type: none"> Income/ Capital appreciation by dynamically managing duration Investment in Debt and Money Market securities across duration |  <p>Investors understand that their principal will be at Moderate risk</p> |
| 3 | Gilt Fund | Canara Robeco Gilt Fund (erstwhile Canara Robeco Gilt PGS) | <ul style="list-style-type: none"> Risk free return (except interest rate risk) and long term capital appreciation Investment in government securities across maturity |  <p>Investors understand that their principal will be at Moderate risk</p> |

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