CANARA ROBECO
Mutual Fund

Want to be free from default risk and benefit from market volatility as well?

Gilt Funds – The Answer to Default Risk

CANARA ROBECO GILT FUND

(Gilt Fund – An open-ended debt scheme investing in government securities across maturity)

Interest Rate Scenario in India

With interest rates in the country on the decline yet offering positive real rates, India is in a sweet spot amongst various debt markets, globally. Over very long term, rates in any economy tends to go lower as the financial system evolves and becomes more market driven and efficient. For example, in the US, rates were volatile in the 1960s-80s, reaching as high as 16% in the 1980's but in next 40 years have trended down to current level of around 0.66% (please see chart 2 below). Over the longer-term Indian rates have moved similarly, showing a downtrend albeit with volatility. This trend is likely to continue as Indian financial system is in process of becoming more market driven and the rate trajectory may follow what happened in the advanced economies.

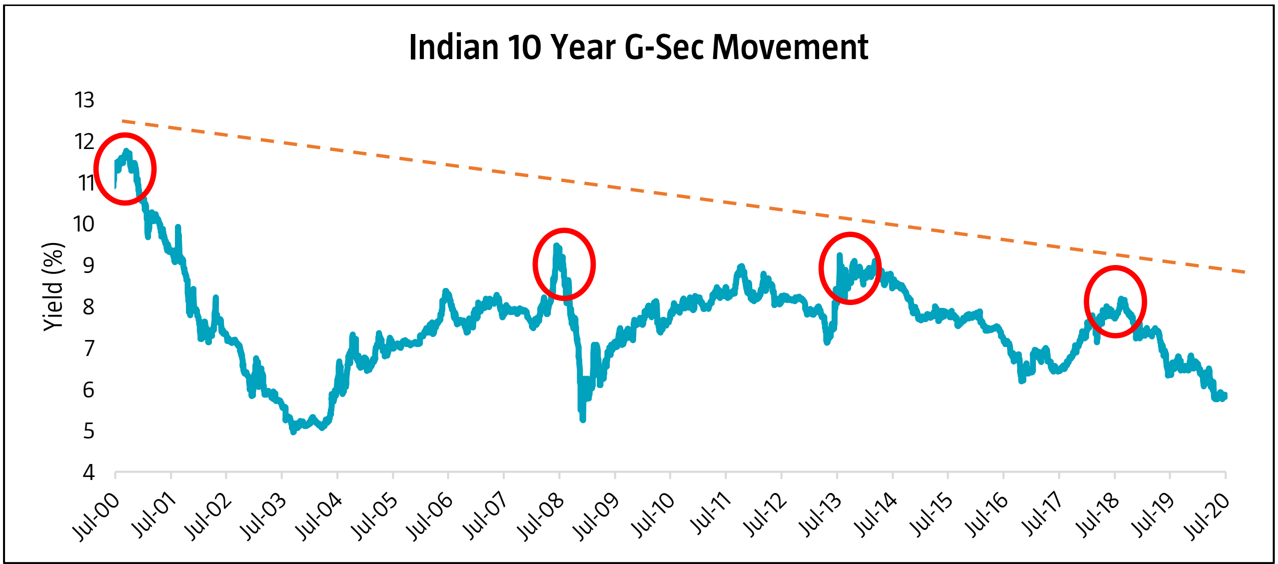

Chart:1 – Softening of Interest rates *Source: Bloomberg*

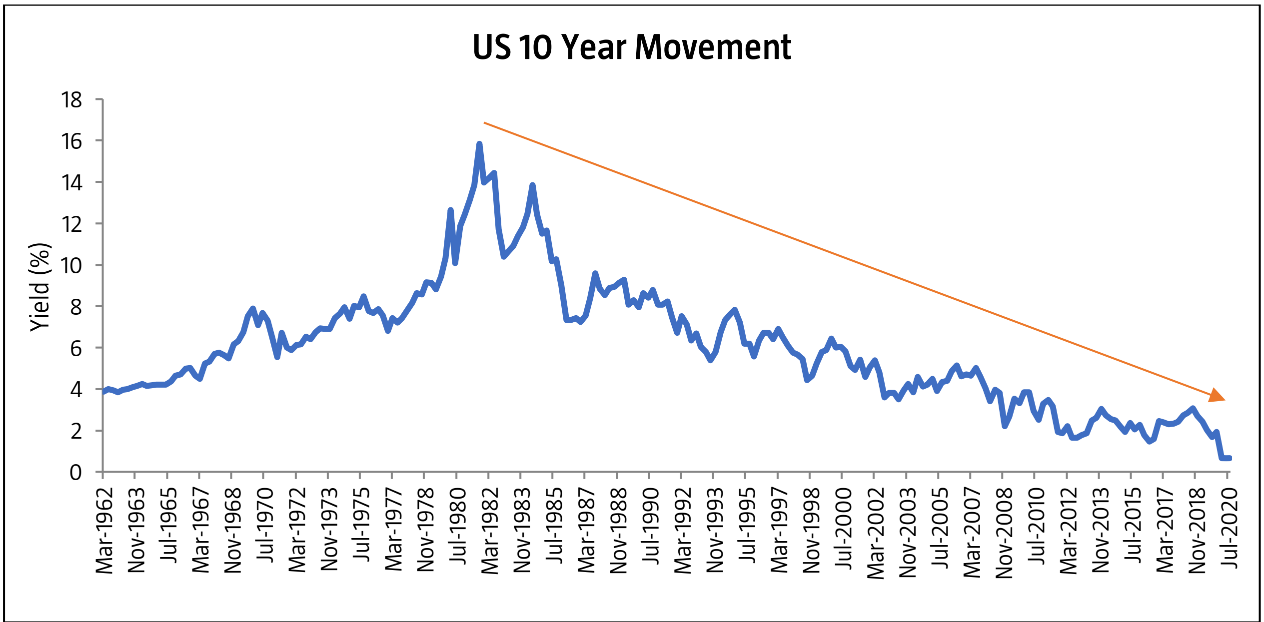

Chart:1 – Trending down of US Interest rates *Source: Bloomberg*

Indian 10 Year G-sec vs US 10 Year G-sec

Foreign institutional investors (FIIs), have played an important role in shaping the course of the Indian Markets. The increased participation of the FIIs in the Indian debt markets has increased transparency and has helped the downward rate trajectory. Due to active FII participation, an impact of the policies and the rate cycles in the Advanced Economies (AE) like US, also impacts the interest rate movement in Indian fixed income markets. The current downward rate movement in US as well as the rest of the world, has seen significant impact on the interest rates in India as well i.e. structurally, interest rates in India are expected to soften.

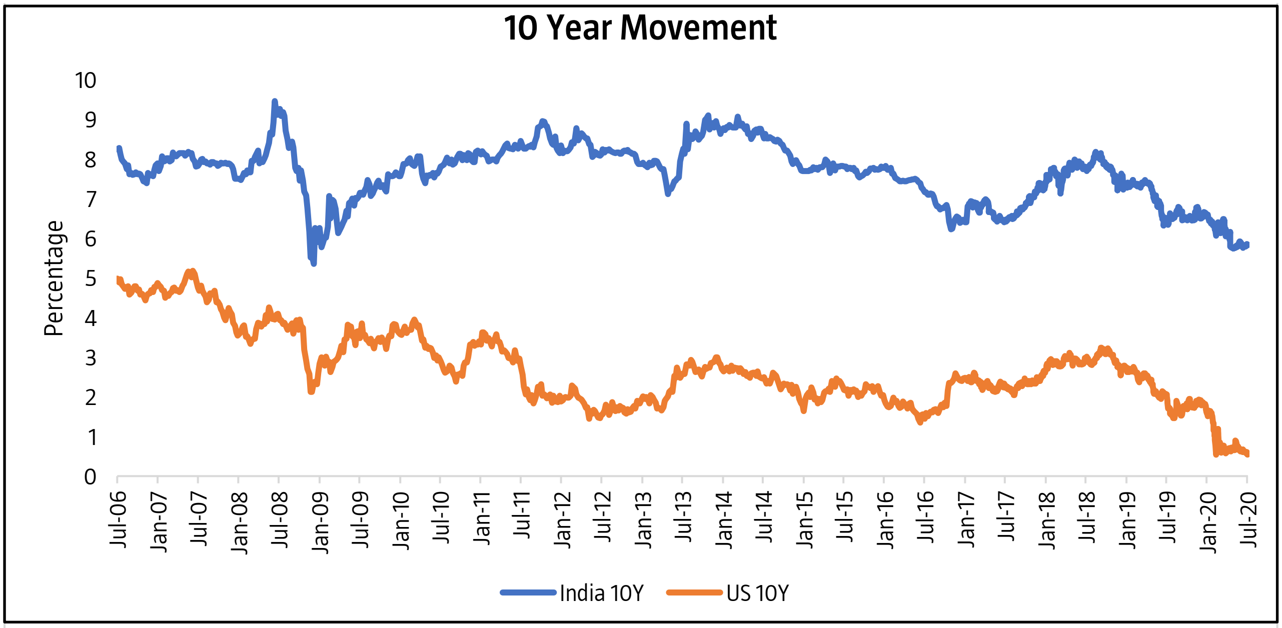

Chart: 3 – Movement of Indian 10-year G-sec and US 10-year G-sec *Source: Bloomberg*

Why Gilt Funds?

Gilt funds are ideal investment avenues for long-term investors who have moderately high risk appetite and are averse to credit risk. Gilt funds offer the flexibility to a portfolio manager to alter allocations to both Central and State Government Securities of varying tenors depending on the portfolio manager's (PM) view on the interest rates. This interest rate movements are exploited to enhance returns by managing the portfolio actively and by taking active strategic and tactical calls across the yield curve. For e.g. in a falling interest rate scenario, a PM may increase allocation to longer maturity instruments to generate capital gains, as when interest rate falls, bond prices rise. When rates rise, and prices fall, the PM is likely to shift to very short-term instruments to protect capital.

In a nutshell, Gilt Funds:

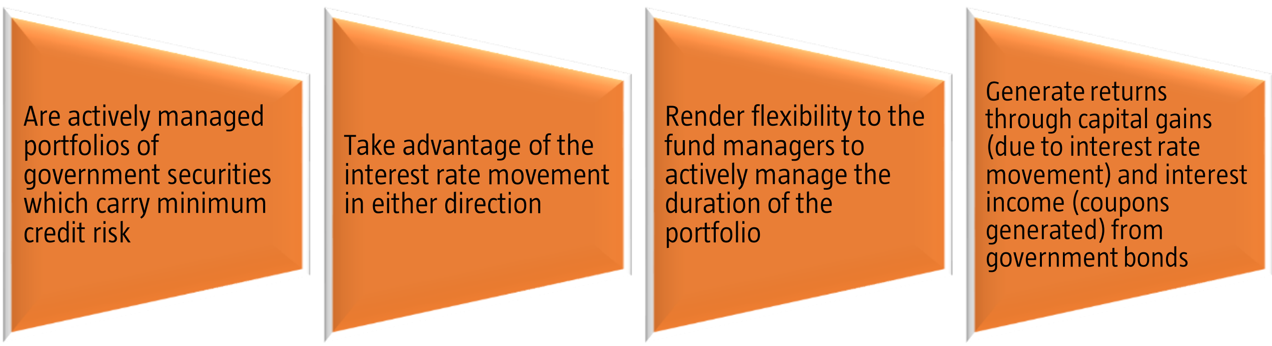

Fig: 4 – Understanding Gilt Funds in a nutshell

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Characteristics of Canara Robeco Gilt Fund

❖ Active Duration Management

Canara Robeco Gilt Fund is an offering for moderate risk takers to participate in the Indian fixed income markets. With regards to its average maturity, the fund falls between a short-term fund and a long- term income fund. It intends to invest and trade in G-secs through active duration play, identifying mispriced opportunities and capturing volatility trends. The fund not only aims at generating Alpha through free-style duration management depending on the interest rate view but also endeavours to capture accruals in the form of portfolio running yields on government/state government securities.

True to its label, the fund has been able to maintain a robust portfolio which enabled the fund to adjust its maturities to the interest rate movement expectations. The duration of the fund was kept high in expectation of falling interest rates. Anticipating a rise in interest rates, the scheme sharply reduces duration. Post interest rates peaking, and with interest rates expected to reduce, the fund increased its exposure to long term government securities. The flexibility to adjust the average maturity of the portfolio allows a speedy alignment as per changing macro-economic scenario.

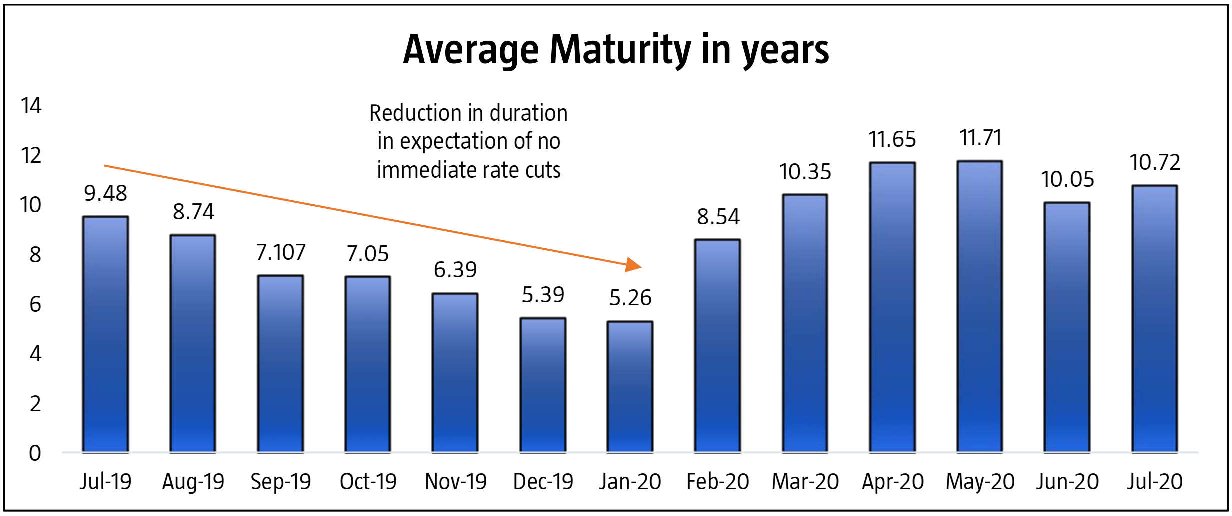


Chart: 5– Active Management seen by varying Average Maturities *Source: ICRA MFI Explorer*

❖ Steady Performance

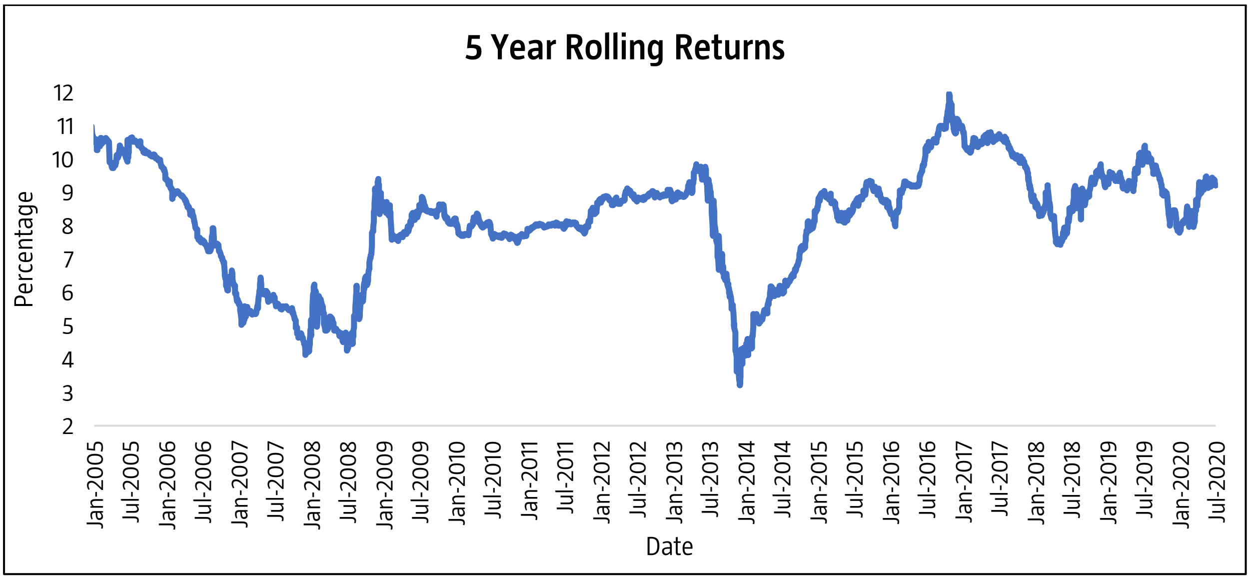


Chart: 6 – Steady 5 year rolling returns *Source: ICRA MFI Explorer*

Range	Percentage of times
0%-5%	5.42%
5%-7%	14.48%
7%-9%	48.09%
>9%	32.01%

Note: The performance has been taken since inception of the fund to 31st Jul'20. The SEBI performance table has been shown in Pg 7

The fund has consistently delivered steady performance since its inception. The 5 year rolling returns have been below 5% only around 5% of the times and around 80% of the times it has been more than 7%.

❖ Trigger Facility

- A trigger is an event, on occurring of which the scheme will automatically switch units on behalf of the investor on the date of happening of the event
- A Target Appreciation Percentage (TAP) trigger facility will automatically switch units on behalf of the investor on achieving the targeted appreciation in percentage as opted by the investor at the time of investment
- This switch as selected by the investor shall be only to the extent of the increase in value
- The trigger will only be executed in case of a point-to-point appreciation of the NAV with the TAP that the investor opted for
- This facility provides an opportunity to capitalize the gains
- It also enables one to shift the profits from duration fund to safer avenues. At the same time the investor can stay invested in duration fund
- It facilitates as an asset rebalancing tool

Why Canara Robeco Gilt Fund?

Moderately conservative investors, who are keen to participate in the likely long term interest rate softening cycle without taking credit risk, may consider investing in Canara Robeco Gilt Fund

The fund manager actively manages the average maturity of the fund to stay ahead of the curve and benefit from the change in interest rates

The portfolio maintains a high credit quality as government securities are perceived a risk-free. Additionaly these securities generally have the highest liquidity in bond markets

In the current interest rate environment, where the interest rates are expected to soften, albeit with some volatility, a robust and coherent portfolio construction process and freestyle duration management of the fund imparts some stability compared to other long term / short term / accrual based debt funds.

Outlook

The on-going pandemic and the resultant lockdown have led RBI to slash interest rates to tackle the sharp growth slowdown as well support markets. 115 basis points repo rate, 155 bps reverse repo rate cut coupled with 100 basis points CRR cut have been implemented since the pandemic induced lockdown. This has resulted in gilt funds becoming an attractive investment category offering attractive returns in the view of further reduction in yields on G-secs in the near future. As bond yields drop, their prices go up.

G-Sec markets are likely to be driven by the borrowings in FY 20-21. In March, RBI announced the borrowing calendar in line with budgeted borrowing of Rs. 7.8 lac crore for FY 20-21, however borrowings were enhanced by Rs. 4.2 lac crore (total now at Rs.12 lac crore) to handle pandemic induced economic crisis. The borrowings have been frontloaded in 1H FY 20-21. It is expected that borrowings are likely to drop in latter part of FY 20-21, leading to more balance in demand-supply scenario. This could lead to drop in yields on government bonds.

The interest rate scenario in India is likely to continue to be benign in the foreseeable future, as global growth has been hit by the pandemic with most countries' GDP sharply contracting in the 1Q FY 20-21. India is likely to witness similar situation with GDP growth likely to be negative in FY 20-21. Hence policy support will likely be required through FY 20-22 as growth recovers, pointing towards benign interest rate scenario in the next few years. RBI underlined it would continue with its accommodative stance for as long as necessary to revive growth, while ensuring that inflation remains within the target.

Fund Specifics

Investment Objective	The objective of the Fund is to provide risk free return (except interest rate risk) while maintaining stability of capital and liquidity. Being a dedicated Gilt Scheme, the funds will be invested in securities as defined under Sec. 2 (2) of Public Debt Act, 1944. However, there can be no assurance that the investment objective of the scheme will be realized.
Inception Date	29th December, 1999
Month-end AUM (INR)	127.02 Crs (as on 31st Jul'20)
Fund Manager	Mr. Girish Hisaria
Benchmark Index	CRISIL Dynamic Gilt Fund Index
Asset Allocation	Government Securities: 80%-100% (Risk – Low) Money Market Instruments: 0% - 20% (Risk – Low to Medium)
Plan & Options	Regular Plan: Growth Option /Dividend Payout Option/ Dividend Reinvestment Option Direct Plan: Growth Option / Dividend Payout Option/ Dividend Reinvestment Option
Minimum Investment Amount	Minimum Rs. 5000/- and in multiples of Re. 1 thereafter Subsequent purchases – Rs. 1000/- and in multiples of Re. 1 thereafter SIP (for Any Date/Monthly Frequency)/STP (for Daily/Weekly/Monthly Frequency)/SWP (for Monthly Frequency) - Rs. 1000 and in multiples of Re. 1 thereafter For Quarterly Frequency - Rs. 2000 and in multiples of Re. 1 thereafter
Entry Load	Nil
Exit Load (Lump sum / SIP / STP)	Nil

CANARA ROBECO Mutual Fund

Performance of the Scheme (as on 31st July 2020)

Period	Returns (%)			Current Value of Standard Investment of Rs. 10,000		
	Scheme	CRISIL Dynamic Gilt Fund Index*	CRISIL 10 Year Gilt Index**	Scheme	CRISIL Dynamic Gilt Fund Index*	CRISIL 10 Year Gilt Index**
Last 1 Year	9.04%	11.04%	7.72%	10,906	11,107	10,774
Last 3 Years	7.09%	8.34%	6.85%	12,283	12,720	12,203
Last 5 Years	9.21%	9.25%	8.40%	15,539	15,569	14,974
Since Inception (CAGR)	9.03%	9.12%	NA	59,346	60,434	--

*Benchmark ** Alternate Benchmark

The past performance may or may not be sustained in the future. Returns are based on growth NAV of Regular plan and are calculated on compounded annualized basis for a period of more than (or equal to) a year and absolute basis for a period less than a year. Inception Date: 29th December 1999. Different plans have a different expense structure. The current fund manager is Mr. Girish Hisaria since 24-Aug-14.

Performance of Other Schemes Managed by the Fund Manager

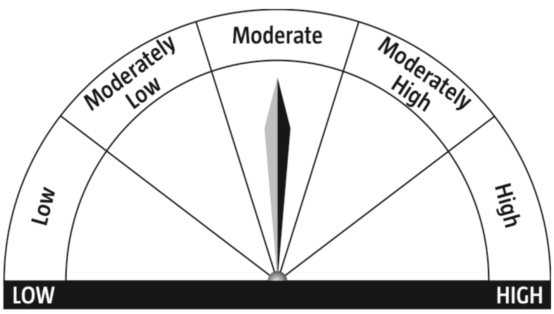
Scheme Names	CAGR (%)							
	1 Year		3 Years		5 Years		Since Inception	
	S*	B#	S*	B#	S*	B#	S*	B#
Canara Robeco Gilt Fund	9.04	11.04	7.09	8.34	9.21	9.25	9.03	9.12
Canara Robeco Liquid Fund	4.62	5.53	6.25	6.72	6.66	6.96	7.57	7.40
Canara Robeco Ultra Short Term Fund	5.86	7.13	6.10	7.57	6.41	7.61	7.57	8.08
Canara Robeco Dynamic Bond Fund	8.77	12.25	6.50	8.71	8.20	9.49	8.00	8.35
Canara Robeco Savings Fund	7.60	8.35	7.36	7.94	7.61	8.13	7.91	7.69

*S=Scheme Returns, #B=Benchmark Returns

Mr. Girish Hisaria manages 5 open-ended schemes of Canara Robeco Mutual Fund.

Scheme performances are as on 31st July 2020. Different plans shall have a different expense structure. The performance details provided herein are of Regular plan - Growth Option. Past performance may or may not be sustained in the future.

Product Labelling



Investors understand that their principal will be at Moderate risk

This product is suitable for investors who are seeking*:

- Risk free return (except interest rate risk) and long term capital appreciation
- Investment in government securities across maturity

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

Disclaimer

The information used towards formulating the outlook has been obtained from sources published by third parties. While such publications are believed to be reliable, however, neither the AMC, its officers, the trustees, the Fund nor any of their affiliates or representatives assume any responsibility for the accuracy of such information. CRMF, its sponsors, its trustees, CRAMC, its employees, officer, directors, etc. assume no financial liability whatsoever to the user of this document. Mutual Fund Investments are subject to market risk. Investors are requested to read the Scheme related documents carefully before investing.

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