



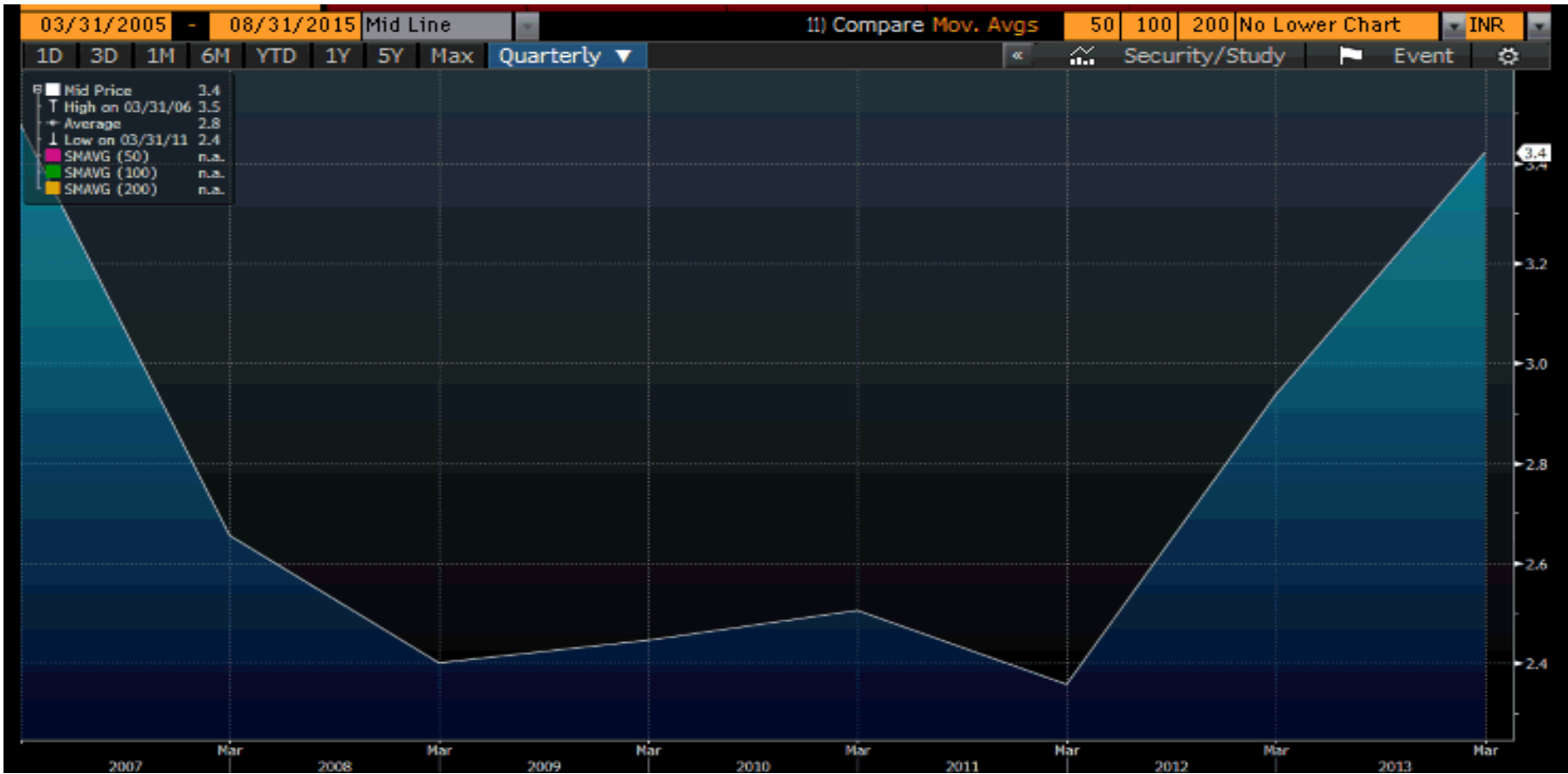
CREDIT QUALITY

Overview

- Credit cycle - background
 - Overall Credit quality has got affected by the macro-economic environment
 - However credit spreads have narrowed as more money has come into the segment
 - Lower spread have forced investors to go down to weaker credit quality issuers
- Associated risks in credit investing
 - Liquidity, concentration
- Axis approach to credit risk

Credit Quality has been on decline

- Indian Bank NPA level has risen to highest in 10 years
- Macro slowdown + worsening of commodity cycle



Source: Bloomberg



But AA spread has fallen to near historic lows

AA spread over G-Sec
2009: 250+ 2011: 200 Now: 100bps
Not getting rewarded for same risk

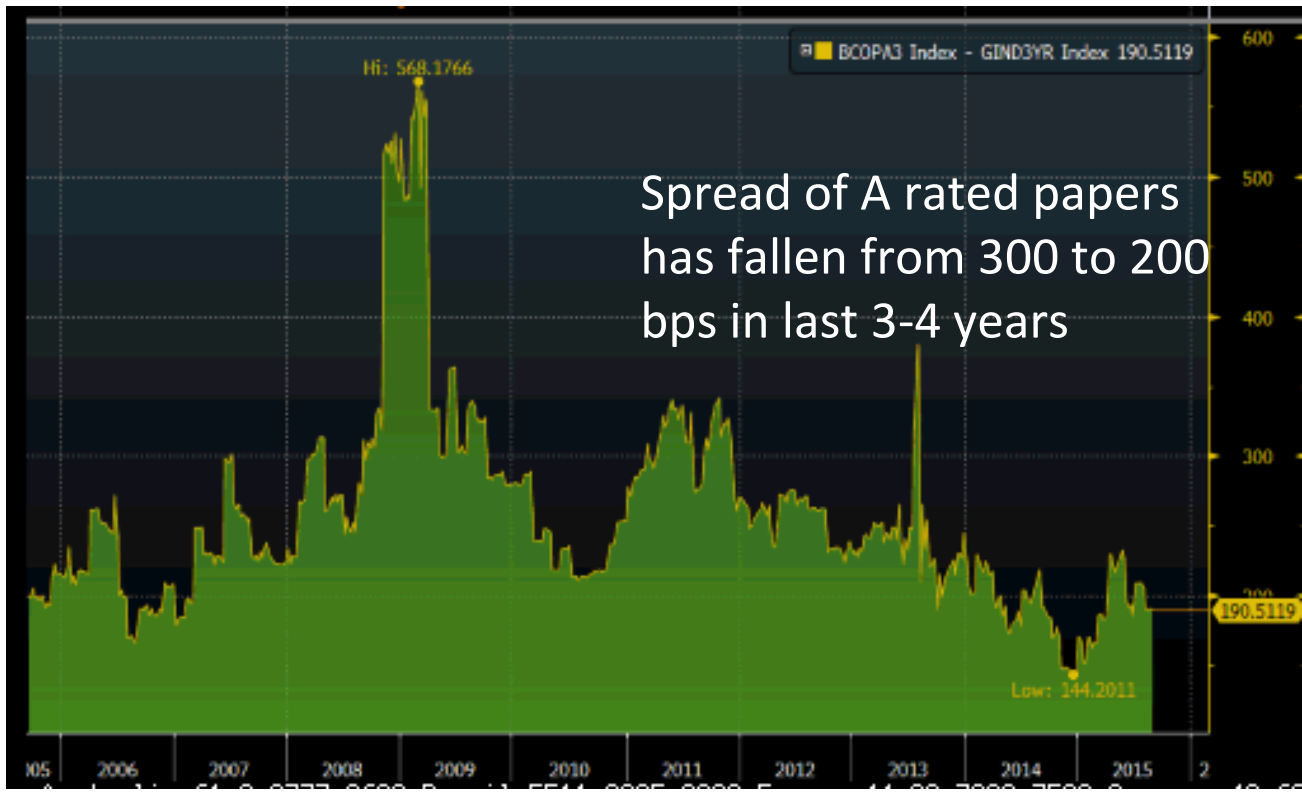


Source: Bloomberg

So investors have moved to weaker credits

Portfolios have invested in A and BBB paper to maintain 200 bps
Here also spread has decreased

2009: 300+ 2011: 300 Now: <200bps



Source: Bloomberg

The transition in rating mix is reflected in the portfolios

Analysis of credit funds*

Date	Rating Mix	Average exposure (%)	Corpus (crs.)
2 years ago (Jul-13)	AAA and equivalent	37.4	34,302
	Upto AA	23.1	
	Below AA	27.6	
1 year ago (Jul-14)	AAA and equivalent	42.7	46,925
	Upto AA	27.8	
	Below AA	29.1	
Current (Jul-15)	AAA and equivalent	22.2	68,417
	Upto AA	22.9	
	Below AA	52.7	

* All debt mutual funds with AAA exposure of less than 35%. Data as on 31st July 15. Source: ACEMF

Additional risk: concentration

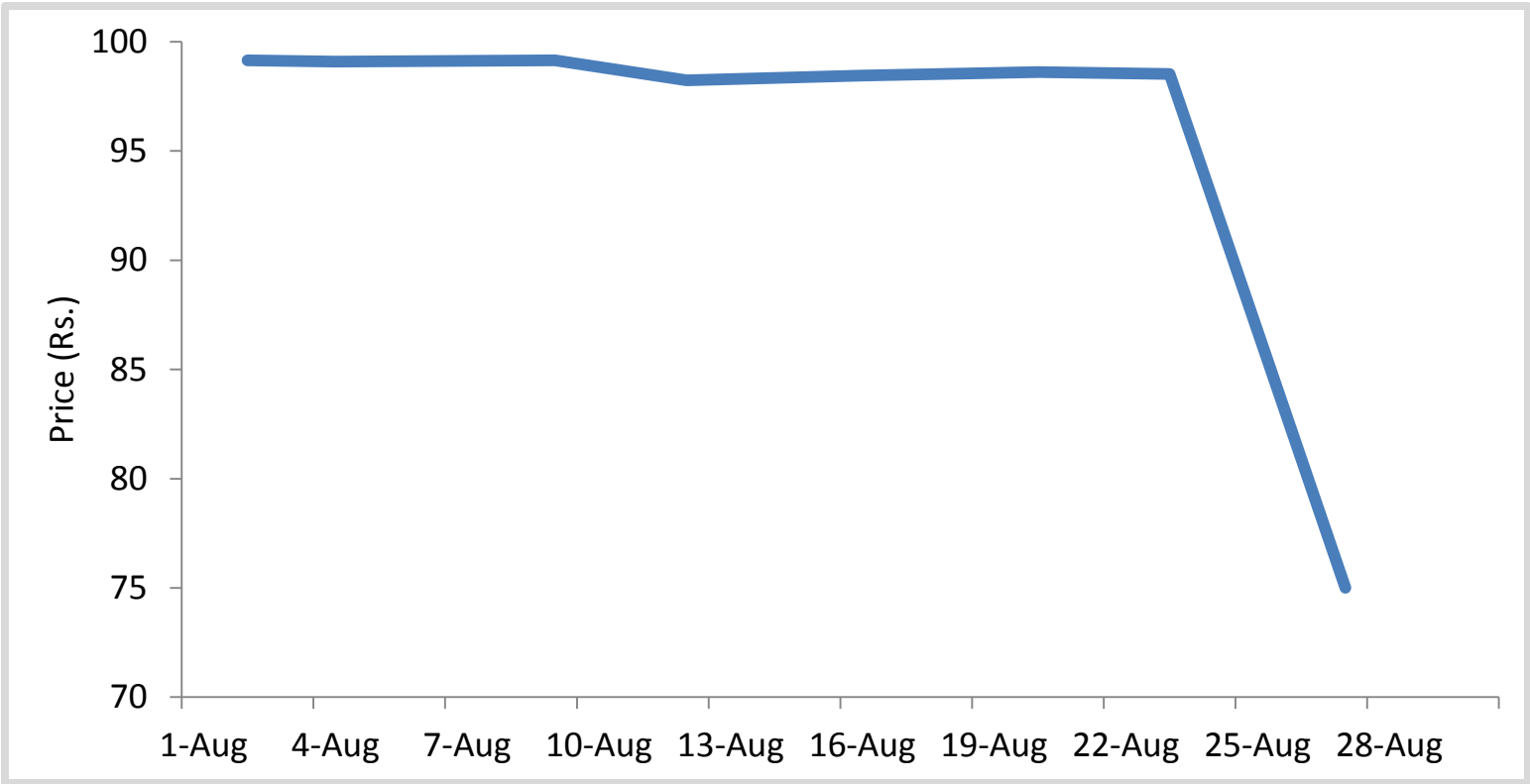
- SEBI regulations allow per scheme investing up to 15% of its NAV in debt instruments issued by single issuer
- Concentrated portfolio increases impact of credit event
 - Credit events are downgrades & defaults
 - Affects a large part of concentrated portfolio

Mark-to-market: Not completely captured

- Effect of credit default is lumpy and is not captured in daily mark to market
- Thus the risk is not captured completely until a downgrade / default event
- Understand the credit profile of the fund before investing

Credit volatility is hidden till event occurs

Illustrative credit paper



Source: CRISIL/ICRA. This is an impact on a paper which was downgraded from AA- to C. Above chart data is only for illustration purpose.



Approach to credit

- Will you put all your money with a cooperative bank or low rated NBFC?
 - Even if it gives 1-2% higher rate?
 - Same approach should be taken for credit
 - Understand the credit quality of the fund (average rating, concentration risk)
- Ensure you have allocation to good quality funds also

Axis Mutual Fund Philosophy

- We have not launched credit fund
- Conservative approach to credit
- Disciplined portfolios with tightly defined limits for most of our funds
 - >75% AAA
 - <2% per issuer AA- and below
- Relatively liquid portfolios

Statutory Details and Risk Factors

Disclaimer: Past performance may or may not be sustained in the future. Sector(s) / Stock(s) / Issuer(s) mentioned above are for the purpose of disclosure of the portfolio of the Scheme(s) and should not be construed as recommendation. The fund manager(s) may or may not choose to hold the stock mentioned, from time to time. Investors are requested to consult their financial, tax and other advisors before taking any investment decision(s).

Statutory Details: Axis Mutual Fund has been established as a Trust under the Indian Trusts Act, 1882, sponsored by Axis Bank Ltd. (liability restricted to Rs. 1 Lakh). **Trustee:** Axis Mutual Fund Trustee Ltd. **Investment Manager:** Axis Asset Management Co. Ltd. (the AMC) **Risk Factors:** Axis Bank Limited is not liable or responsible for any loss or shortfall resulting from the operation of the scheme.

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

Source of Data: Bloomberg, ACEMF

Data as on 31st Aug 15