

Debt Market Review

Liquidity in the Money market remained tight throughout September on the back of advance tax outflows, Forex intervention by the RBI and portfolio outflows from the Indian capital markets. The overnight Mibor has averaged at 10.58% during the month as compared to 9.08% for the previous month. The average amount infused by the Reserve Bank of India under repo auction increased to Rs. 41,328 cr as against Rs. 20,921 cr during the previous month. The last week of the month witnessed an acute liquidity situation with call rates reaching 14%-17%. RBI also announced measures such as conducting the second LAF and a temporary reduction in the SLR by 1% in response to the domestic liquidity situation.

Amidst falling crude oil prices, relatively stable inflation figures (albeit still around 12%) and a market expectation of a peaking in the hike in interest rates against the backdrop of a severe global financial crisis, the benchmark 10 year G-sec witnessed a fall in yield of nearly 55-60 bps during the month from a high of 8.68% to 8.08%. However, with the RBI conducting an unscheduled auction of government securities worth Rs. 10,000 cr, the RBI announcement of a front-loaded government borrowing calendar for the second half of the year and extremely tight overnight liquidity scenario, G-Secs retraced most of the gains during the month with the benchmark 10 year bond ending at 8.63% by the end of September.

Given the liquidity situation, the 1-3 month money market assets witnessed a sharp rise in yields of around 150-200 bps. The rise was further exacerbated with the increased supply of short term issuances by banks.

The month of October could see inflows to the tune of Rs. 44,000 cr (approx) by way of coupon and redemption of SLR bonds. RBI cut the cash reserve ratio (CRR) by 150bps to 7.5% from its current level of 9% which would come into effect from the fortnight beginning October 11, 2008, and is expected to inject ~Rs. 60,000 cr into the banking system. The government also cancelled Rs. 10,000 cr auction to be conducted on 10th October 2008 in view of the tight liquidity situation. There would however be pressure on short term liquidity due to higher currency demand during the festival season and RBI's intervention in the Forex market to stabilize the exchange rate movements.

Going ahead:

We expect the liquidity situation to ease from the extreme tightness seen over the last few weeks but may continue to remain tight during the next month.

The CRR cut could be seen as a response to tight credit and money market conditions and as a move to cushion the domestic economy from the global contagion. Even though the inflation outlook has improved over the last few weeks and growth expectations have weakened, we do not see a shift in the stance of the monetary policy anytime soon as inflation may continue to remain in double digits for some more time, bank lending continues to remain high and the fiscal situation remains slack.

Debt Investment Process

The investment process involves formulating Investment Strategies based on Interest rate outlook and is backed by strong Research support in the following areas:

- Fundamental Research
- Macroeconomic factors and changes- Global & Domestic
- Comparative Study of Bonds Markets, Currency Markets and Credit Markets in India, other emerging economies and developed markets.
- Industry Analysis
- Company Analysis-Financial and non financial factors both are considered

Before investing in any instrument an internal credit rating is done by the research department based on the above process. This is independent of the external rating being awarded by the rating agencies. The lower of the two rating is considered for investment purposes.

This rigorous rating criterion will always help in making sound investment decisions and is particularly needed in the current volatile economic conditions.

Consistent outperformance

SIMPLE ANNUALIZED RETURNS OF EDELWEISS LIQUID FUND

Scheme Name	NAV (Oct 10, 2008)	1 Week	2 Weeks	1 Month	Since Inception
Edelweiss Liquid Fund - IP - Growth	10.1081 (10-Oct-08)	12.2620	13.3073	11.7836	11.9979
Edelweiss Liquid Fund - Ret - Growth	10.108 (10-Oct-08)	11.9509	13.1771	11.7714	11.9861
Edelweiss Liquid Fund - Super IP - Growth	10.1081 (10-Oct-08)	12.0027	13.3595	11.7836	11.9979
Crisil Liquid Fund Index		7.0625	7.8789	8.1541	0.82

ABSOLUTE RETURNS OF EDELWEISS LIQUID PLUS FUND

Scheme Name	NAV (Oct 10, 2008)	1 Week	2 Weeks	1 Month	Since Inception
Edelweiss Liquid Plus Fund - IP - Growth	10.0973	0.2144	0.4347	0.9185	0.973
Edelweiss Liquid Plus Fund - Ret - Growth	10.0970	0.2134	0.4327	0.9155	0.970
Crisil Liquid Fund Index		0.1161	0.2806	0.6479	0.67

Source: www.mutualfundsindia.com. Performance is as of October 10, 2008. Inception date: September 9, 2008. Returns are computed of the growth options of the respective schemes. Past performance may or may not be sustained in future. Such information is not necessary indicative of future results and may not necessarily provide a basis for comparison with other investments.

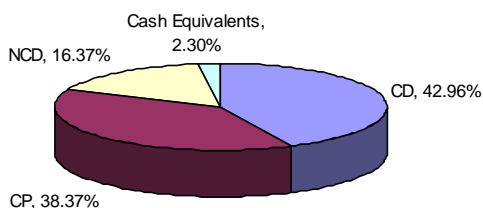
Portfolio of Edelweiss Liquid Fund



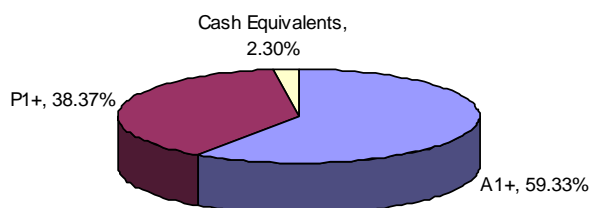
Name of Instrument	Industry Classification
ICICI Bank	Banks
HPCL	Petroleum products
Cholamandalam DBS Finance	Finance
Yes Bank	Banks
Cash Equivalents	Others

Average Maturity: 50 days

Asset Allocation



Rating Profile

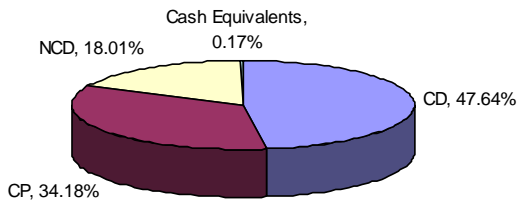


Portfolio of Edelweiss Liquid Plus Fund

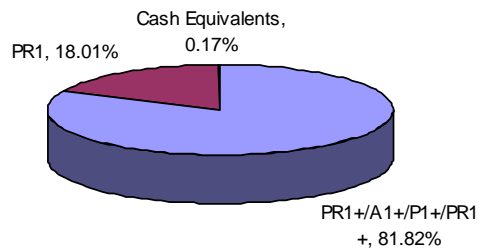
Name of Instrument	Industry Classification
ICICI Bank	Banks
HPCL	Petroleum products
Ramsarup Industries	Ferrous Metals
HCC	Infrastructure
Cash Equivalents	Others

Average Maturity: 61 days

Asset Allocation



Rating Profile



Fund Manager Details

Fund Manager: Mr. Bhupesh Kalyani
Total work experience: 8 years
Managing the funds since inception (Sept 2008)

Risk Factors: Edelweiss Asset Management Ltd., being a newly set up AMC, does not currently possess prior track record of managing funds. Edelweiss Liquid Fund and Edelweiss Liquid Plus Fund are only the names of the schemes and do not in any manner indicate either the quality of the scheme, its future prospects and return. The Schemes, being offered, are the maiden schemes in the Liquid/ Debt Scheme Category under its management. All Mutual Fund and securities investments are subject to market risk and there can be no assurance that the schemes' objectives will be achieved. As with any investment in securities, the NAV of the Units issued under the Scheme can go up or down depending on the factors and forces affecting the capital markets. Past performance of the Sponsor and their Affiliates/AMC/Mutual Fund & its Scheme(s) does not indicate the future performance of the Scheme and may not necessarily provide a basis of comparison with other investments & may not be sustained in future. Investment in Mutual Fund Units involves investment risks such as trading volumes, settlement risk, liquidity risk, default risk including the possible loss of principal. As the price / value / interest rates

of the securities in which the scheme invests fluctuates, the value of your investment in the scheme may go up or down. Investors are not being offered any guaranteed / assured returns under any scheme of Edelweiss Mutual Fund.

Investment Objective: The objective of **Edelweiss Liquid Fund** (An Open ended Liquid Scheme) is to provide optimal returns, commensurate with low risk and high degree of liquidity, through a portfolio constituted of money market & short term debt instruments & the objective of **Edelweiss Liquid Plus Fund** (An Open ended Debt Scheme) is to provide reasonable returns, commensurate with moderate level of risk and high degree of liquidity, through a portfolio constituted of money market and debt instruments. However, there is no assurance that the investment objective of the Scheme will be realized and the Scheme does not assure or guarantee any returns.

Load Structure: Edelweiss Liquid Fund: Entry Load: Nil, Exit Load: Nil (across all plans); **Edelweiss Liquid Plus Fund:** Entry Load: Nil, Exit Load: 0.10% if redeemed before 8th day of the allotment.

Statutory Details: Edelweiss Mutual Fund is set up as a Trust under the Indian Trust Act, 1882 by Edelweiss Capital Limited (liability restricted to Rs. 1 Lac). **Sponsor:** Edelweiss Capital Limited (ECL). **Trustee:** Edelweiss Trusteeship Company Limited (ETCL). **Investment Manager:** Edelweiss Asset Management Limited (EAML). Copy of SAI/SID and Key Information Memorandum (KIM) can be obtained from any of our Investor Services Centers as well as from our website www.edelweissmf.com

#Disclaimer from CRISIL: The assigned rating AAf is valid only for "Edelweiss Liquid Fund". The rating of CRISIL is not an opinion on the Asset Management Company's willingness or ability to make timely payments to the investor. The rating is also not an opinion on the stability of the NAV of the Fund, which could vary with market developments.

Mutual Fund Investments are subject to market risks. Please read SAI & the respective SID carefully before investing.

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