TATA INCOME PLUS FUND

(An Open-Ended Debt Scheme)

TATA MUTUAL FUND

Expertise that's trusted

PRODUCT DETAILS

Inception	:	Nov 11, 2002
Benchmark Index	:	Crisil Composite Bond Fund Index
Exit Load	:	1% of NAV if redeemed/switched-out on or before expiry of 365 days from the date of allotment
Gross YTM	:	7.93% (as on 31st Mar 2015)
Avg. Maturity	:	9.02 yrs (as on 31st Mar 2015)

INVESTMENT PHILOSOPHY

Tata Income Plus Fund is an income fund with a focus on generating higher accrual income by exploiting opportunities from higher credit spreads. The Fund utilizes its flexibility to take exposure to debt instruments rated AA- and above to generate higher accrual income. Under normal yield curve scenario the fund seeks to invest in medium to long term corporate bonds and Government securities for accrual income opportunities. The Fund also tactically aligns portfolio to generate capital appreciation opportunities in a falling interest rate scenario.

As the Fund looks to generate higher accrual income it also strives to diligently manage the credit risk of the portfolio. Credit risk management is practiced by investing in papers which are AA- & above in credit quality along with constant monitoring of credit quality of portfolio securities.

INVESTOR PROFILE

The Fund is suitable for investors who have moderate to higher risk appetite and are seeking to invest in an income fund with a potential to generate higher accrual income than short term funds. Investors who prefer to invest in a duration fund with a focus on generating accrual income can also consider investing in Tata Income Plus Fund. The investment horizon of the investors should be a minimum of 1 Year and above.

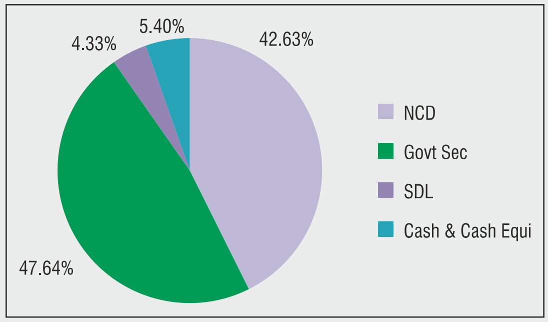
OUTLOOK

Macro Update:

Economy:

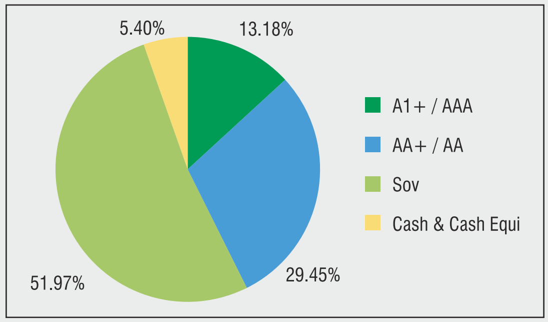
- The Current Account Deficit (CAD) narrowed to USD8.2bn (1.6% of the GDP) in the third quarter of FY15 from USD10.1bn (2% of GDP) in 2Q FY15
- The narrowing of the CAD can be largely attributed to an increase in net services exports and reduction in investment income outflows as well as softening of crude prices
- Exports fell 15% in February following a 11% YoY decline in Jan-15 as commodity

Instrument Wise Composition



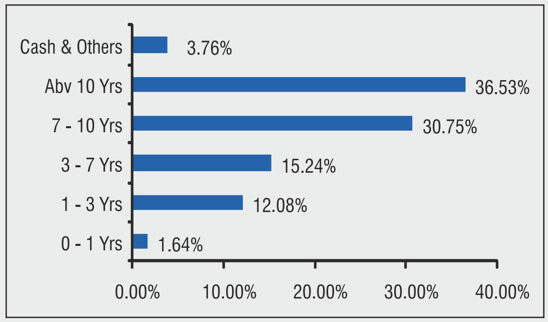
As on 31st March, 2015

Composition by Ratings



As on 31st March, 2015

Maturity Ladder



As on 31st March, 2015

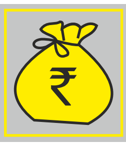
This product is suitable for investors who are seeking*:

- Long Term Capital Appreciation & Regular Income
- Investment in Debt/Money Market instruments/Government Securities.
- The scheme is classified as **Low Risk** ■ **(BLUE)**. Investors understand that their principal will be at low risk.

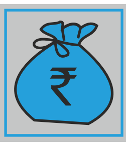
***Investors should consult their financial advisors if in doubt about whether the product is suitable for them.**

Note: Risk may be represented as:

(BROWN) investors understand that their principal will be at high risk.



(YELLOW) investors understand that their principal will be at medium risk.



(BLUE) investors understand that their principal will be at low risk.

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

related exports like petroleum (55%) and iron ore (-76%) showed a decline

- Imports followed a similar trend, contracting 15.7% in Feb-15 led by a decline in oil imports; non-oil/non-gold imports rose 9% YoY in Feb-15
- The Index of Industrial Production (IIP) continued to expand at a moderate pace of 2.6% YoY in Jan-15 versus a revised growth of 3.2% in Dec-14 as core and capital goods sector displayed strong growth

Inflation

- The Consumer Price Index (CPI) inched up to 5.4% YoY in Feb-15 versus 5.1% YoY print in the previous month and the rise was ascribed primarily to unfavourable base effect as sequential inflation remained muted at ~0.2% MoM
- Core inflation inched down marginally to 3.9% YoY as compared to 4% YoY in the previous month
- The Wholesale Price Index (WPI) touched a low of -2.1% YoY in Feb-15 as compared to -0.4% YoY in Jan-15; all the major sub-indices reported a lower YoY inflation in Feb-15 versus the previous month's print
- Food inflation in February 2015 was elevated in terms of both CPI (6.8%) & WPI (7.7%) and the recent non-seasonal rainfall especially in the Northern and Central parts of the country could keep food prices elevated in the near term

Monetary Policy

- During the month, RBI surprised the market by cutting the policy rates by 25bps for the second time in the year on 4th March, drawing comfort from the ongoing disinflationary trend and improving quality of fiscal adjustment as enunciated in the Union Budget 2015-16
- As per RBI, the government's intent to clean up legacy issues in the fiscal accounts, reduction in subsidies, as well as a greater transfer of resources to state governments understated the true level of fiscal rectitude
- The commitment of maintaining fiscal discipline, the change in direction of government spending from subsidies to infra creation coupled with continued disinflationary trends may have prompted RBI to announce the cut in rates before the policy meeting date

Outlook

- The Government has planned to borrow Rs.3.6Tn, in first half of FY16, which is around 60% of the total planned gross borrowing
- While the gross planned issuance for the first half of FY16 is slightly higher than last year (Rs.3.52Tn), the net issuance is nearly 19% lower than last year, due to higher redemption in the first 6 months (Rs.1.37Tn). This lower net supply should get easily absorbed by the banking system
- Going forward, benign crude oil prices and a stable currency should aid in keeping core inflation low which in turn is likely cushion the upside risks to food inflation due to adverse climatic conditions
- We expect India's trade deficit to decline to USD 27bn in Q4FY15 from USD 33.2bn in Q4FY14, translating into a CAD surplus for the first time since in seven years
- We believe rate cuts and higher-than-anticipated government spending will be positive for investment recovery

Debt Market

- Going forward, a conflux of benign commodity prices, improvement in quality of government spending is expected to keep CPI inflation well within the comfortable range of 5-5.5%
- The future trajectory of rate cuts is expected to be data-dependent with RBI likely to monitor developments in food inflation more closely. We expect the RBI to pause at least till the June policy as it will have greater clarity regarding the onset of the monsoon.
- We continue to believe that the RBI has room for an additional cut of 25-50bps in FY16
- We expect only one additional rate cut in the calendar year 2015. We expect RBI may cut rate in its June policy review however, beyond that it may choose to pause till the end of the year
- The 10yr benchmark yield may trade in the range of 7.25% - 7.40% by the end of the current year
- RBI may keep the liquidity in the market at comfortable levels through term repos
- Under current market conditions we prefer to play duration through corporate bonds as we are positive on the corporate bond segment due to limited supply and continued demand from foreign investors
- In the medium term we expect the 10Yr Benchmark G-sec yields to ease to 7.00% levels which makes Duration Funds attractive
- Investors with moderate risk appetite and more than 1 year investment horizon may opt for Income funds

Data source: Bloomberg

CURRENT PORTFOLIO STRATEGY & POSITIONING

- The current portfolio has ~52 exposure in G-sec
- The Fund has invested ~46% in maturity segment of 3-10 years and about ~14% in up to 3 years segment as on 31st Mar 2015
- Our exposure to above 10yr segment has increased to ~37%
- The average portfolio maturity stands at 9.02 years and modified duration at 5.41 years. The YTM of the portfolio was at 7.93 % as on 31st Mar 2015
- The Scheme currently aligned to capture potential capital appreciation opportunities through government securities along with higher accrual income by investing AA+/AA segment of debt market
- The Scheme may look forward to enhance the accrual income through increase in the average maturity of the portfolio and exposure to credit segment as the yields at the longer end of the yield curve move higher or spreads rise

Contact Your Financial Advisor