TATA FLOATING RATE FUND- DECEMBER 2021 UPDATE

An open-ended debt scheme investing predominantly in floating rate instruments (including fixed rate instruments converted to floating rate exposures using swaps/ derivatives). A Relatively High Interest Rate Risk and Moderate Credit Risk.

TATA MUTUAL FUND

For External Circulation

Data as on 15th Dec 2021

This product is suitable for investors who are seeking*:

- Regular Income by investing predominantly in a portfolio of floating rate instruments (including fixed rate instruments converted for floating rate exposures using swaps / derivatives)

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

Investors understand that their principal will be at Low to Moderate Risk

Potential Risk Class			
Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)			
Moderate (Class II)			
Relatively High (Class III)		B-III	

Mutual Fund Investments are subject to market risk read all scheme related documents carefully

About the Fund

The fund invests in either floating rate instruments (instruments whose yields change with change in benchmark rates) or in fixed coupon instruments which are converted to floating rate by using Swaps/Overnight Index Swap (OIS).

Tata Floating Rate fund provides flexibility in response to a changing interest rate environment. The fund aims to utilize the flexibility to manage interest rate risk and enable investors earn reasonable accrual returns. The Fund aims to create a portfolio of optimal credit quality along with lower net duration risk enabling investors to earn reasonable accrual returns.

Portfolio Overview

Instrument-wise Breakdown

G-Sec	G-Sec- Floating Rate	Synthetic Instrument	Floating Rate Bond	Corporate Bond	Cash & Equivalent
0.97%	**30.37%**	**20.27%**	**34.28%**	**7.74%**	**6.36%**

Ratings-wise Breakdown

SOV	AAA	AA+	Cash & Equivalent
33.43%	47.76%	12.44%	6.36%

Fund Metrics

YTM	Average Maturity	Macaulay Duration	Modified Duration
5.30%	3.44 Years	1.28 Years	2.71 Years

Fund Strategy and Positioning

Portfolio Composition

The portfolio must hold at least 65% of the fund in floating rate instruments, which are of two types:

a) Pure floating rate instruments. The fund holds ~65% of the portfolio in these instruments.
b) Synthetic Instruments which convert fixed rate securities into floating instruments through swaps. ~20% of the portfolio is comprised of these instruments.

Positioning the Portfolio*

The portfolio of a Floating Rate Fund can be positioned along 3 broad lines:

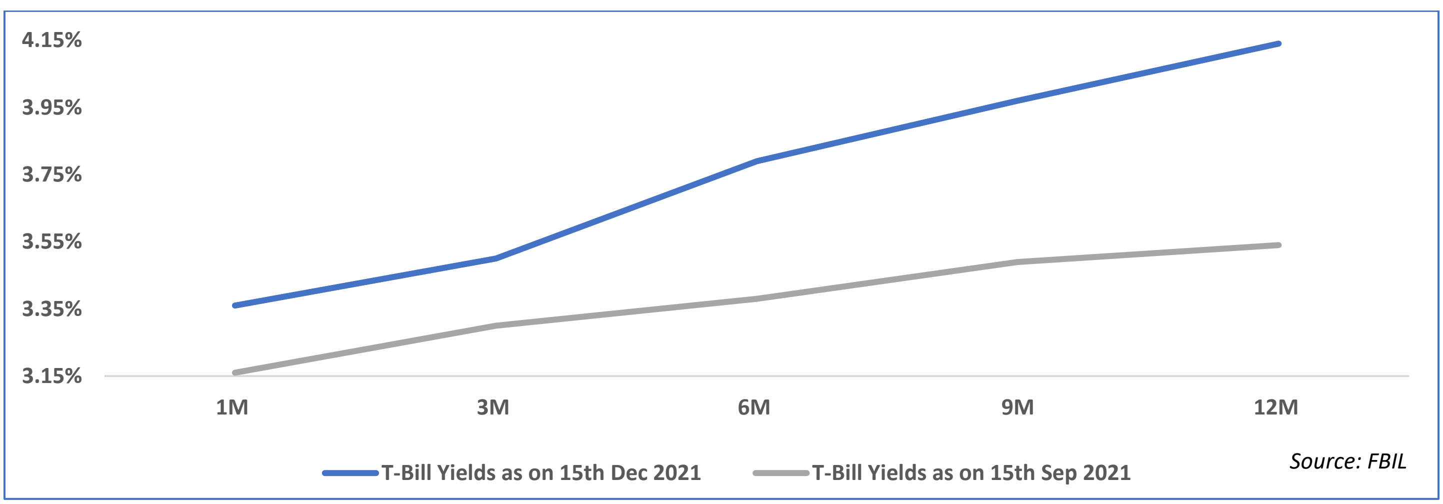
a) Buying into a particular maturity and swapped using OIS. The fund manager can then let the maturity of the portfolio run down over time.
b) A credit strategy where the fund manager constructs portfolio by buying higher yield papers and gaining accrual returns.
c) A Flexible strategy where the position is built to sit astride the accrual cycle in order to generate reasonable accrual returns with flexibility in terms of maturity and duration.

Tata Floating Rate Fund runs a flexible strategy. In aid of this we have maintained the net duration levels of the portfolio at ~1-1.50-year levels. A larger part of the fund is invested in pure floating rate instruments, with the balance in synthetic instruments and other corporate bonds.

The fund endeavors to pursue reasonable accrual and does not increase duration beyond a point where the fund would be exposed to greater interest rate risk.

**Based on current market conditions and subject to change in the future*

Fixed Income Outlook and Impact on the Fund



RBI has started to normalize the excessively accommodative position it has maintained over the past few quarters to aid the economy in the pandemic period. It has started reducing liquidity in the system. By the coming of the next financial year, the RBI will likely move into a neutral stance and may increase the Repo rate by June-22 or even earlier depending on the inflation situation.

If Inflation remains elevated, the propensity of the RBI to change its stance to neutral is likely to be sooner than later.

As liquidity has been tightening, call rates and near-term rates are already inching up and the short end of the curve will remain under pressure (as will the longer end to a lesser extent.). The yield curve is likely to see bear flattening, with shorter end yields rising faster than longer term yields.

As T-Bill yields and Call rates increase, pure floating rate instruments will benefit from the reset of rates.

The Synthetic instruments will not be adversely impacted by rising yields and it would partly offset any negative impact of rise in rates. These instruments in the portfolio are of ~1.50-year durations with YTMs in the 4.80-5.00% levels.

Investing in Tata Floating Rate Fund- Rationale

As the RBI normalizes policies and reduces liquidity in the system in the coming months the fund's flexible composition of floating rate bonds, synthetic instruments and the relatively low duration position make the fund suitable for the coming interest rate cycle.

The fund is suitable for investors looks for reasonable accrual returns with lower volatility in a rising interest rate scenario.