TATA MEDIUM TERM FUND- DECEMBER 2021 UPDATE

An open-ended fund medium term debt scheme investing in instruments such that the Macaulay Duration of the portfolio is between 3 years & 4 years. A Relatively High Interest Rate Risk and Moderate Credit Risk.

(The scheme has 1 segregated portfolio)

TATA MUTUAL FUND

For External Circulation

This product is suitable for investors who are seeking*:

- Income/Capital Appreciation over medium term.
- Investment in Debt / Money Market Instruments / Government Securities.

***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 Moderately High 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.

Fund Overview

The investment objective of the scheme is to generate income and capital appreciation over a medium term.

The fund will endeavor to identify and allocate the assets of the scheme between various fixed income securities with the objective of generating reasonable returns. The security will be identified based on various parameters such as issuer, financial track record of the issuer, corporate governance track record of the issuer, liquidity of the security, maturity of the security, interest rate scenario etc.

Fund Commentary

The fund has maintained has slightly reduced average maturity from 3.86 years in May-21 to 3.66 years in December.

The fund has increased allocation to SOV papers from ~14% in July-21 to ~26% in December, while at the same time reducing allocations to AAA-papers from ~57% to ~49% currently. Allocations to AA/AA- papers have remained at the ~20-25% levels for the past few months.

Fund Overview- As on 15th December 2021

Ratings-wise Breakdown of the Portfolio

Scheme	Cash	SOV	AAA	Sub-total	AA	AA-	Total
Tata Medium Term Fund	3.06%	26.20%	49.12%	**78.38%**	15.39%	6.23%	**100%**

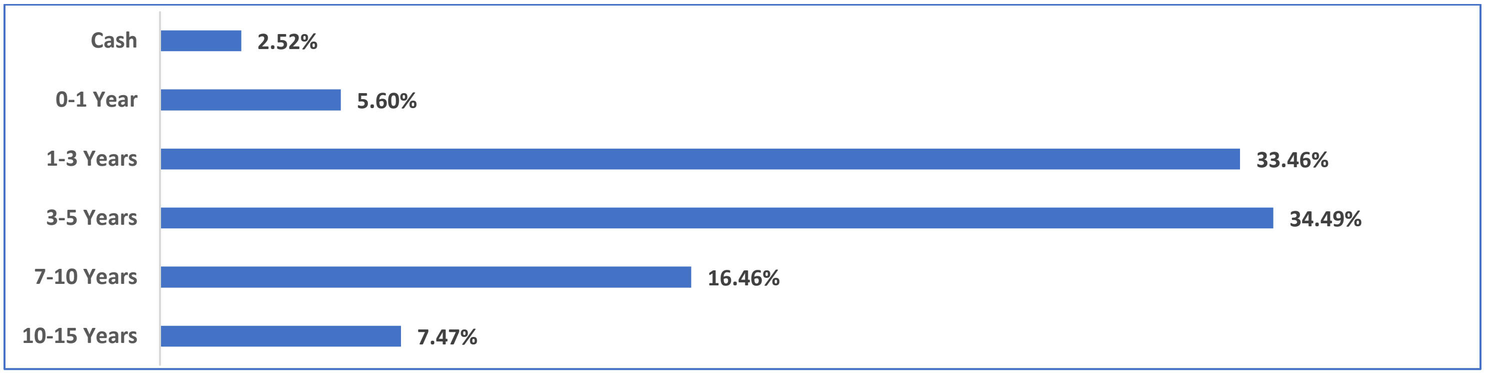
Instrument-wise breakdown of the Portfolio

Scheme	Cash	G-Secs	PSU Bonds	Sub-Total	Non-PSU Bonds	Total
Tata Medium Term Fund	3.06%	26.20%	17.91%	**47.17%**	52.83%	**100%**

Fund Metrics

YTM	Average Maturity	Macaulay Duration	Modified Duration
6.31%	3.69 Years	3.07 Years	2.94 Years

Maturity Profile



Current Portfolio Strategy*

Maturity

- Portfolio is biased towards short to medium term securities.
- ~39% of the portfolio is invested in the 0-3 years segment and ~51% in the 3-10 years segment.
- ~8% of the portfolio is invested in the 10 years and above segment

Liquidity

- Portfolio is sufficiently liquid with ~18% in AAA-PSU Bonds and 26% in G-Secs.

Accrual

- YTM of the portfolio is 6.31%
- Accrual of the portfolio is enhanced by addition of select AA/AA- rated issuers
- Given debt outlook, accrual papers can offset some of the risks associated with a rising interest rate scenario

Portfolio Quality

- The portfolio is of a high quality, with ~49% in AAA, ~26% in G-Secs
- The securities invested are cash generating companies or have strong parent group support

*Based on current market scenario. Strategy is subject to change without notice.

Considering a rising interest rate scenario, the fund has kept its Macaulay Duration close to the lower end of the allowed band. The fund has not invested in longer term corporate debt securities and has not seen downgrades since the start of the pandemic. There is Strong demand from mutual funds, corporates, and Insurance companies for 3–5-year accrual papers, which may result in the segment outperforming in coming months.

Securities Concentration

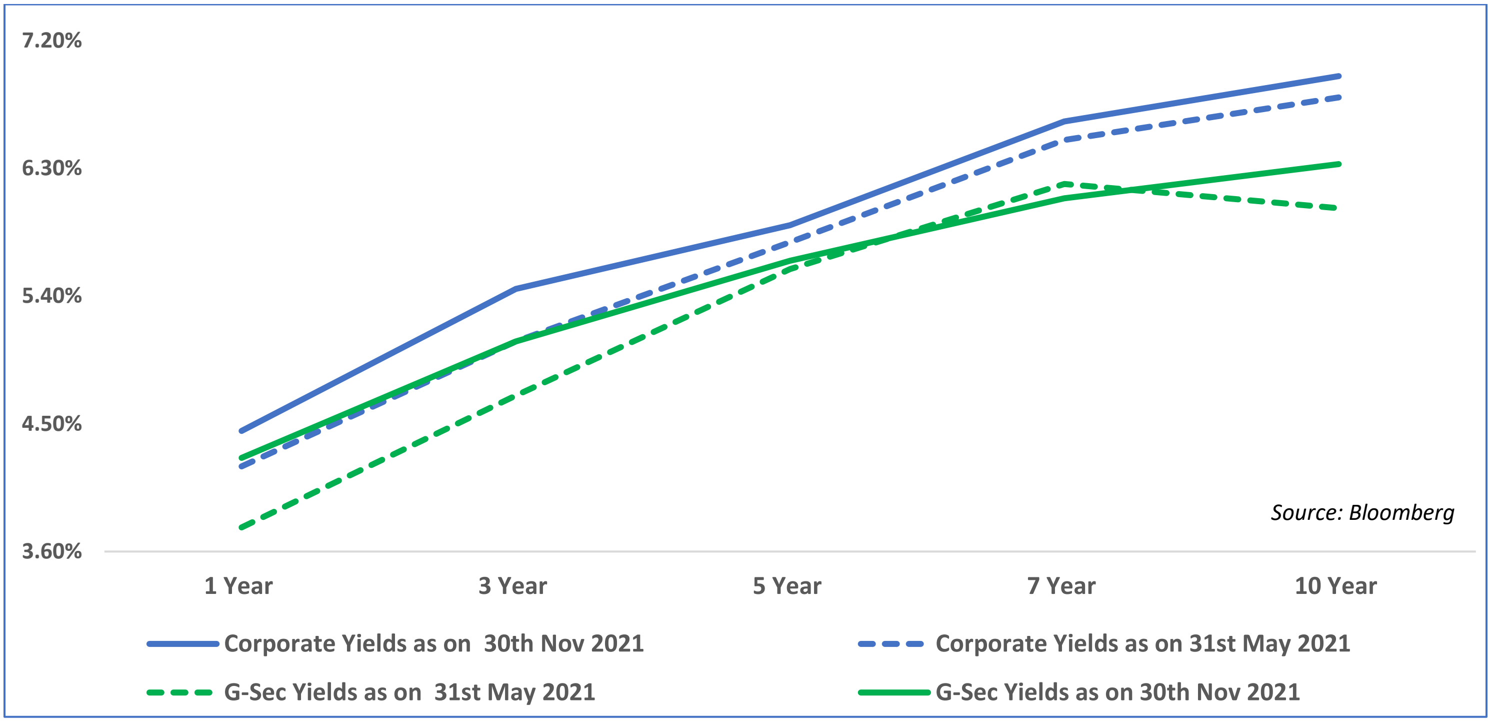
The fund has a diversified portfolio of debt securities across sectors, groups, and instruments, with a balance of G-Secs, AAA-PSUs and higher accrual papers.

A significant portion of the fund’s investments in AAA rated papers are issued by PSU companies (~18% in PSU issuers out of ~49% allocated to AAA papers). The fund has diversified its exposure investing across energy, roads, cement, telecom, auto, infrastructure, REIT, NBFCs, banks etc.

The fund has also taken some select exposure in AA/AA- rated securities (~22%) in order to further add to accruals.

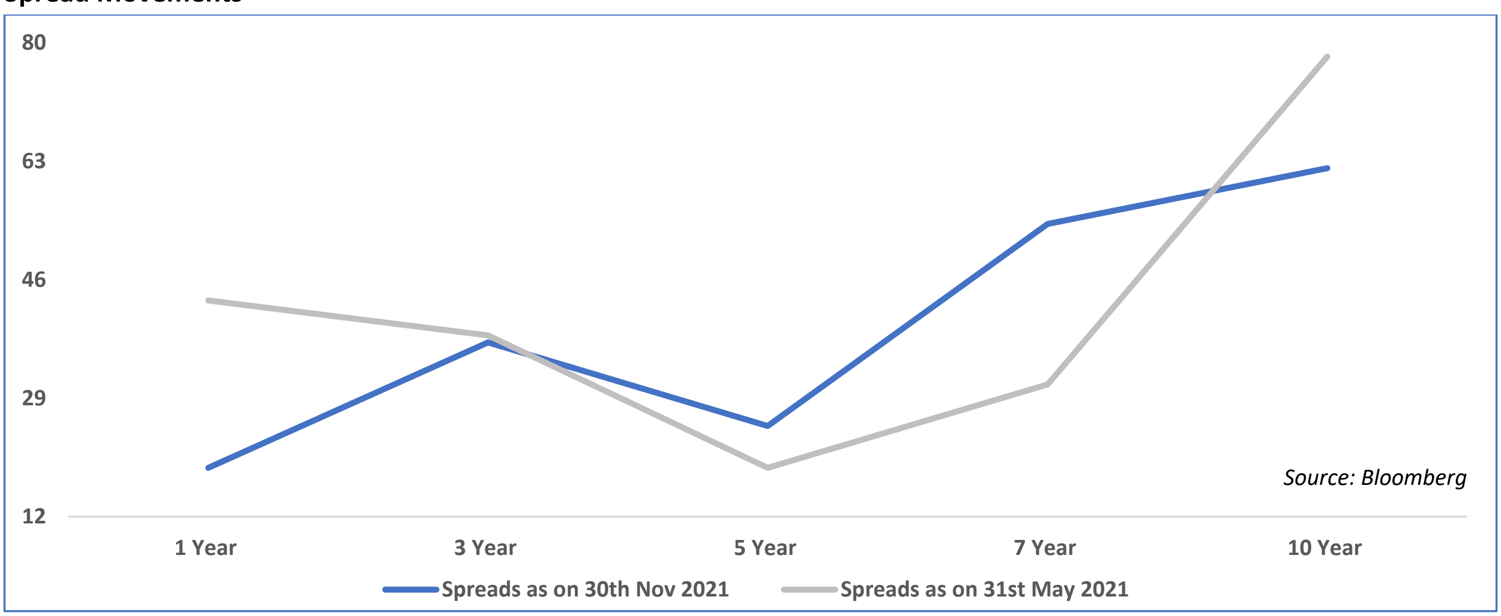
Movement of Yields and Spreads: May-2021 to November-2021

Yield Movements



- Corporate Yields rose by ~25-40 bps in the 1–3-year segment and by ~10-15 bps in the 5–10-year segment.
- G-Sec yields rose by ~30-40 bps in the 1–3-year segment and fell by ~10 bps in 7-year segment, while rising by ~30 bps in the 10-year segment.

Spread Movements



- Spreads in 1-year segment compressed by ~25 bps and remained stable in the 3-year segment.
- Spreads in the 3-7-year segment widened by ~5-25 bps. Spreads in the 10-year segment compressed by ~15 bps.

Debt Outlook

- The market is widely expecting RBI to make Reverse Repo rate hikes in the February MPC and hike the Repo Rate in the next financial year.

- US federal Reserve is expected to end Quantitative Easing by March 2022, Rate hikes from the US Fed are expected from June 2022 as CPI inflation for November 2021 has come at 6.8 %.

- Market players expect 2/3 rate hikes in US in 2022. This has led to expectation of growth slowing down in the coming years in the US with the ten year yields below 1.5 %.

- Liquidity absorption by RBI and expectation of RBI hiking Reverse Repo rates in the coming year should keep the short end of the yield curve under pressure. In the medium to long end segment, there could be buying at higher levels from banks / mutual funds/insurance companies/ provident funds to deploy their surplus.

- Growth in the Indian economy is robust, as evident from GST Collection remaining high, freight movements and direct and indirect tax collections. However, global growth slowdown due to the omicron variant, is a risk

Yield and Spreads

Yield Movements

Instrument	Yields as on 30th November 2021	Yields as on 31st May 2021	Change between May to-Nov 21
1 Year AAA PSU	4.45%	4.20%	25
1 Year G-Sec	**4.26%**	**3.77%**	**49**
3 Year AAA PSU	5.45%	5.08%	37
3 Year G-Sec	**5.08%**	**4.70%**	**38**
5 Year AAA PSU	5.90%	5.78%	12
5 Year G-Sec	**5.65%**	**5.59%**	**6**
7 Year AAA PSU	6.63%	6.50%	13
7 Year G-Sec	**6.09%**	**6.19%**	**-10**
10 Year AAA PSU	6.95%	6.80%	15
10 Year G-Sec	**6.33%**	**6.02%**	**31**

Source: Bloomberg

Spread Movements

Instrument	Spreads over G-Secs on 30th November 2021 (bps)	Spreads over G-Secs on 31st May 2021 (bps)
1 Year AAA (PSU)	19	43
3 Year AAA (PSU)	37	38
5 Year AAA (PSU)	25	19
7 Year AAA (PSU)	54	31
10 Year AAA (PSU)	62	78

Source: Bloomberg

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