TATA SHORT TERM BOND FUND- DECEMBER 2021 UPDATE

(An open-ended short-term debt scheme investing in instruments such that the Macaulay Duration of portfolio is between 1 year and 3 years.)

TATA MUTUAL FUND

For External Circulation

(The scheme has 1 segregated portfolio which was created under Tata Corporate Bond Fund. Main portfolio Tata Corporate Bond Fund was merged with Tata Short Term Bond Fund w.e.f. 14th December 2019).

This product is suitable for investors who are seeking*:

- Regular Fixed Income for Short 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 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 investment objective of the fund is to generate regular income/appreciation over the short to medium term.
- The Fund endeavors to create a liquid portfolio of debt as well as money market instruments to provide reasonable returns and liquidity to investors.

Fund Commentary

Since Mar-21, the fund has kept its average maturity in the ~2-2.50-year levels. The fund increased allocations in AAA-bonds from ~53% in May-21 to ~70% in November-21, while reducing allocation in SOV papers from ~25% to ~21% in the same period.

The fund reduced allocations to money market instruments from ~17% in April-21 to ~3% in currently.

In the past six months, the fund was equal weight in AAA papers, but with greater exposure to PSU papers and overweight in SOV papers while being absent in sub-AAA papers. This caused fund YTM to be lower as the fund invested in papers with relatively lower credit risk.

Fund Overview- As on 30th November 2021

Ratings-wise breakdown of the portfolio

Scheme	Cash & Equivalents	SOV	AAA	A1+	Total
Tata Short Term Bond Fund	5.91%	21.21%	69.60%	3.28%	**100%**

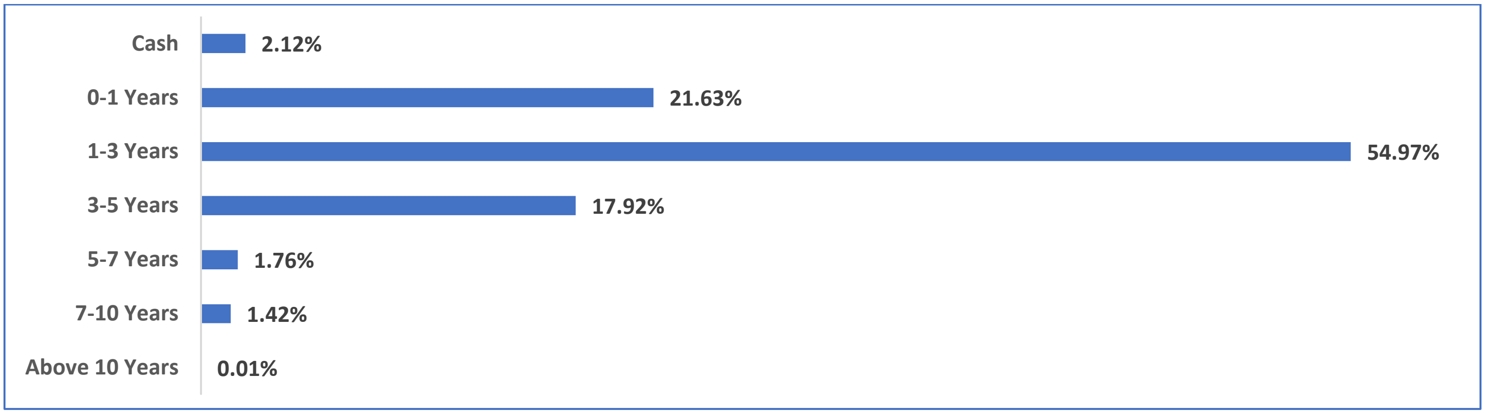
Instrument-wise breakdown of the portfolio

Scheme	Cash & Equivalents	G-secs	CP	CD	T-Bill	PSU Bonds	Total	Non-PSU Bonds	Grand Total
Tata Short Term Bond Fund	5.91%	21.05%	1.73%	1.55%	0.16%	39.68%	**70.08%**	29.92%	**100%**

Fund Metrics

Average Maturity	Macaulay Duration	Modified Duration	YTM
2.25 Years	2.03 Years	1.95 Years	5.26%

Maturity-wise breakdown of the Portfolio



Current Portfolio Strategy*

Maturity	Liquidity	Accrual	Portfolio Quality
•The portfolio is biased towards short term instruments with ~76% in the 0-3 year segment •The fund holds ~22% in the 3-10 year segment.	•Portfolio is highly liquid, with ~40% of the portfolio in AAA- PSUs and ~2% in CD •The fund holds ~21% in SOV rated papers.	•The YTM of the portfolio is 5.26% •The scheme runs an accrual strategy	•The portfolio comprises of ~73% in AAA/A1+ rated securities •Fund has ~21% assets invested in SOV papers

RBI is expected to start normalizing excess overnight liquidity to neutral/ small surplus liquidity by the end of the current Financial Year. It has already started reducing the levels of surplus overnight liquidity in the system to maintain macroeconomic stability through Variable Repo Rate Auctions. As per RBI monetary policy on 8th December, RBI intents to take out liquidity worth Rs.7.5 Lakh crores cumulatively through 14 Day VRRR by December 2021. RBI in its monetary policy, has projected CPI inflation for first half of the next financial year at 5 % levels. RBI has also not given any guidance on hiking the reverse repo rates. RBI wants to see growth to be both durable and sustainable before it withdraws its accommodative monetary policy stance.

Short end corporate yields Likely to see upward movement, due to lowered systemic liquidity and markets pricing in rate hikes in the coming months. Longer term corporate bond yields may see an uptick due to increase supply of papers in the medium term. In the second half of this financial year, long end bonds are expected to be supported due to demand from Insurance companies/Pension Funds/NPS.

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

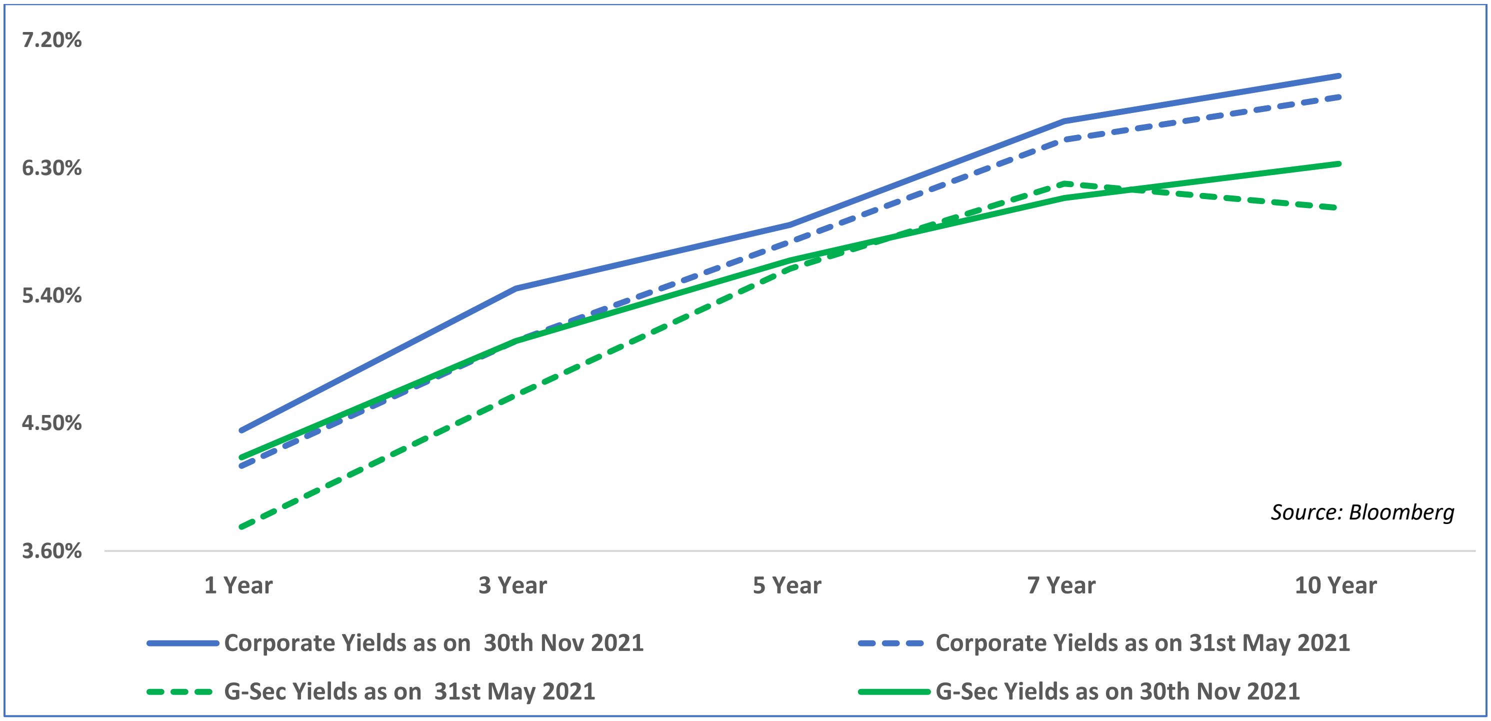
Investment in Tata Short Term Bond Fund- Rationale

The fund is biased towards safer instruments given domestic and global uncertainties. The fund is positioned to predominantly generate accrual returns from high quality bonds and G-Secs. Fund is suitable for investors looking for an accrual-based portfolio for a ~2-year investment horizon.

Source: RBI Stat. Supplement

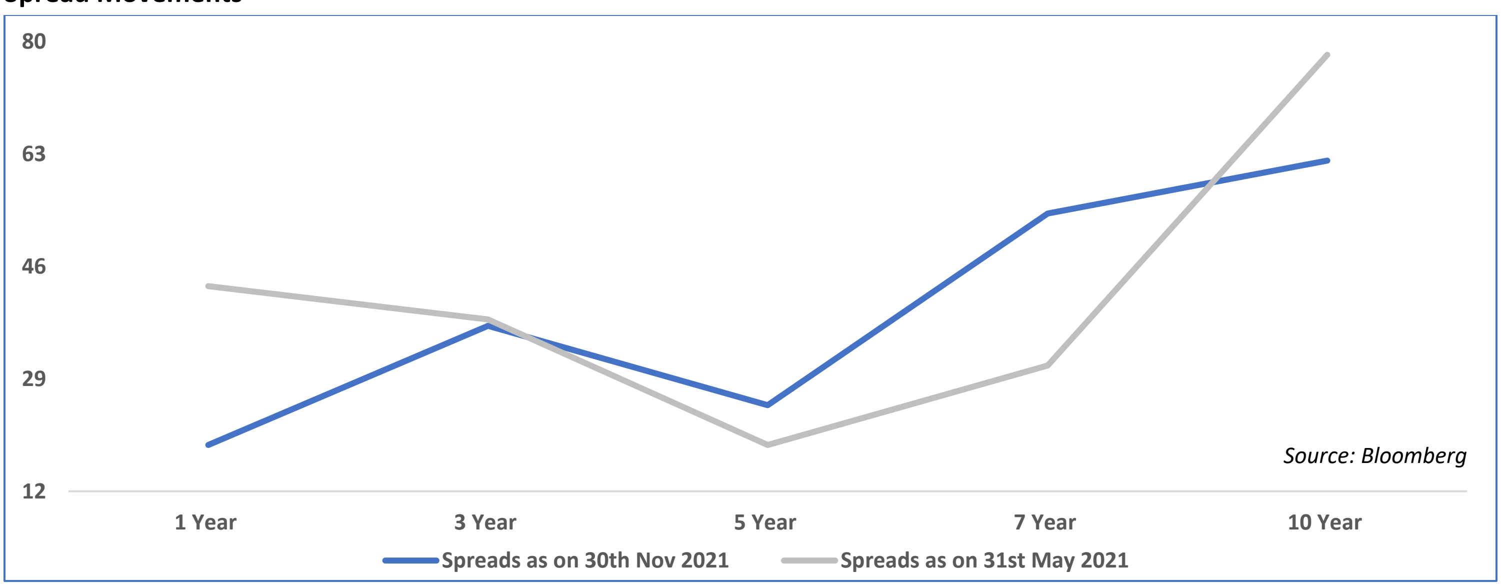
Movement of Yields and Spreads: May-2021 to November-2021

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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