TATA SHORT TERM BOND FUND- OCTOBER 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.)

For External Circulation

Data as on 30th September 2021

(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**

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

The portfolio's performance with respect to the benchmark in the past year can be attributed to the average maturity, higher allocation to Government securities and quality of the portfolio.

Since Mar-21, the fund has kept its average maturity in the ~2-year levels. The fund increased allocations in AAA-bonds from ~37% in March-21 to ~54% in August-21, while reducing allocation in SOV papers from ~37% to ~26% in the same period.

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

Ratings-wise breakdown of the portfolio

Scheme	Cash & Equivalents	SOV	AAA	A1+	Total
Tata Short Term Bond Fund	14.79%	26.19%	56.15%	2.45%	**100%**

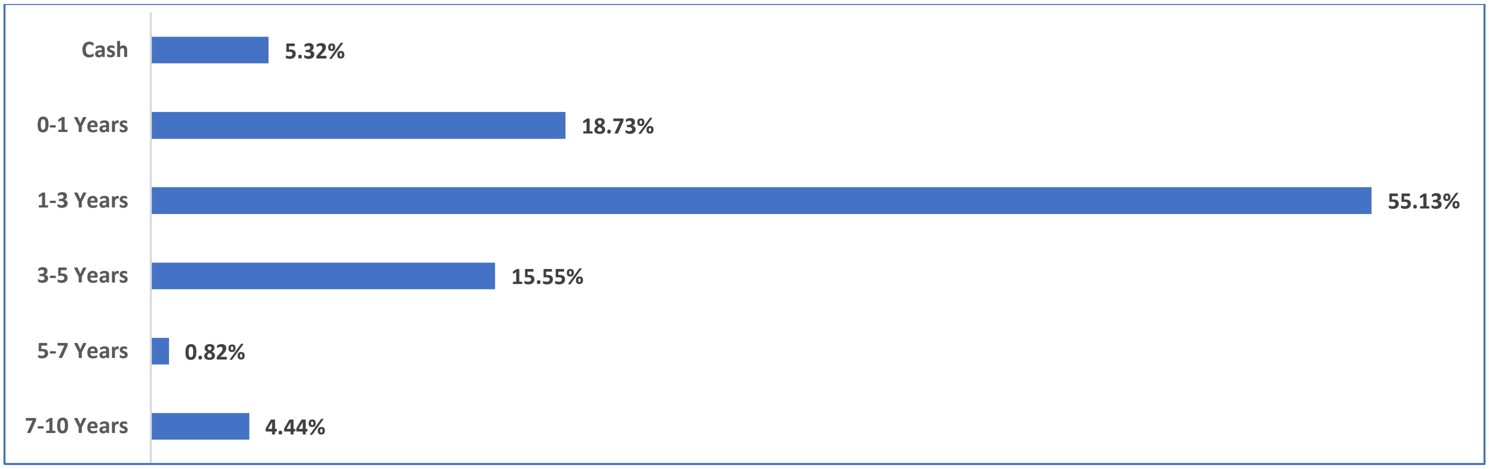
Instrument-wise breakdown of the portfolio

Scheme	Cash & Equivalents	G-secs	CP	T-Bill	PSU Bonds	Total	Non-PSU Bonds	Grand Total
Tata Short Term Bond Fund	14.79%	26.04%	2.45%	0.15%	34.43%	**77.87%**	22.13%	**100%**

Fund Metrics

Average Maturity	Macaulay Duration	YTM
2.29 Years	2.04 Years	4.89%

Maturity-wise breakdown of the Portfolio



Current Portfolio Strategy*

Maturity

- The portfolio is biased towards short term instruments with ~74% in the 0-3 year segment
- The fund holds ~21% in the 3-10 year segment.

Liquidity

- Portfolio is highly liquid, with ~2% in money market instruments, ~26% in G-Secs & T-Bills and ~34% in AAA-PSU bonds

Accrual

- The YTM of the portfolio is 4.89%

Portfolio Quality

- The portfolio comprises of ~59% in AAA/A1+ rated securities
- Fund has ~26% assets invested in SOV papers

Due to second wave of Covid-19, Rate hike expectation have been pushed into next financial year provided we do not have a severe third wave and we are able to vaccinate majority of the population. RBI Governor has reiterated he will be patient and want growth to be durable and sustainable before starting to normalize policy rates.

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

Allocation to G-Secs in the Portfolio

RBI has been conducting Government Securities Acquisition Program (GSAP) in March-July 2021 and OMO operations to keep interest rates low. RBI Governor has stated he take unconventional and conventional measures to keep interest rates low to support economic growth.

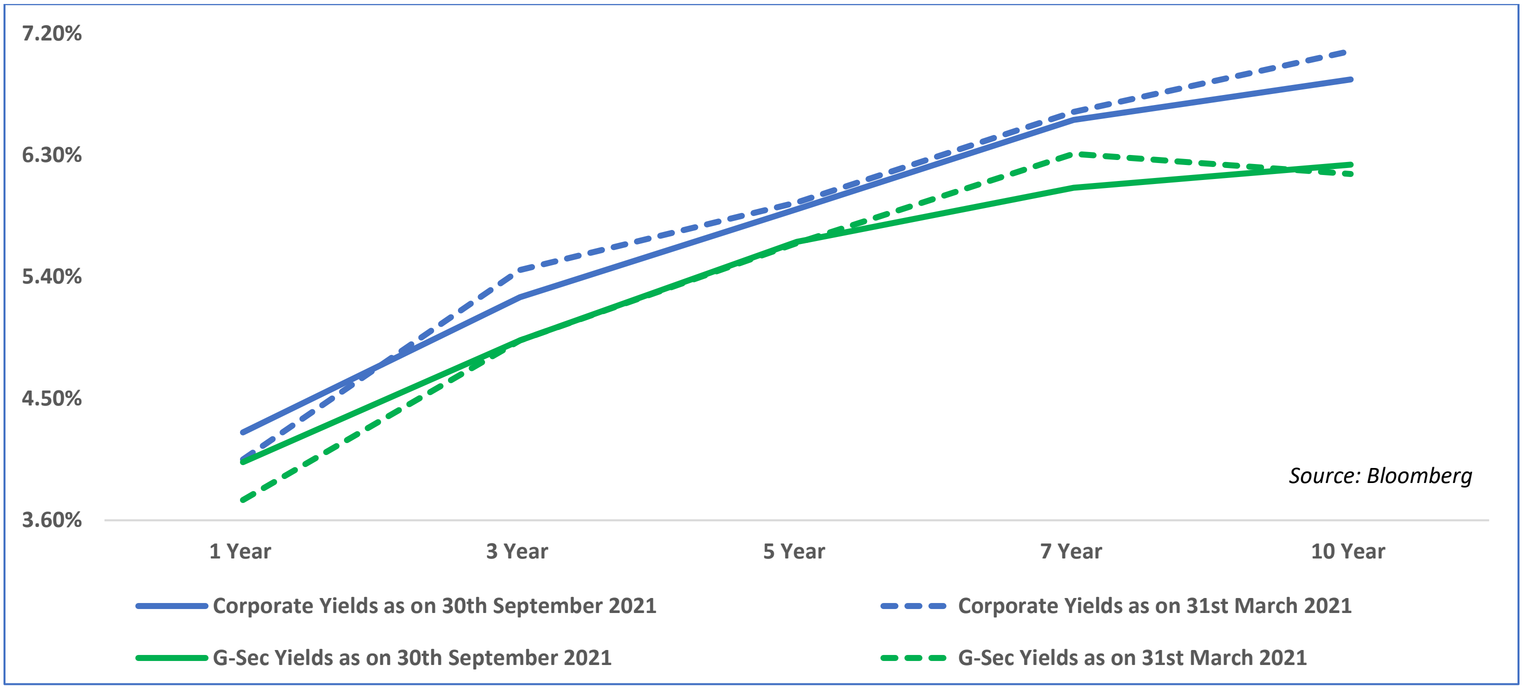
G-Sec yields are expected to remain stable on the basis of RBI's stated intention to ensure orderly evolution of the G-Sec curve and reduce volatility to ensure a stable rate structure. RBI Governor has endeavored to support the government's borrowing program. RBI is expected to cap 10-year yields at the 6.25% level at the present juncture. They want growth to be sustainable and durable before allowing yields to move up.

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.

Movement of Yields and Spreads: March-2021 to September-2021

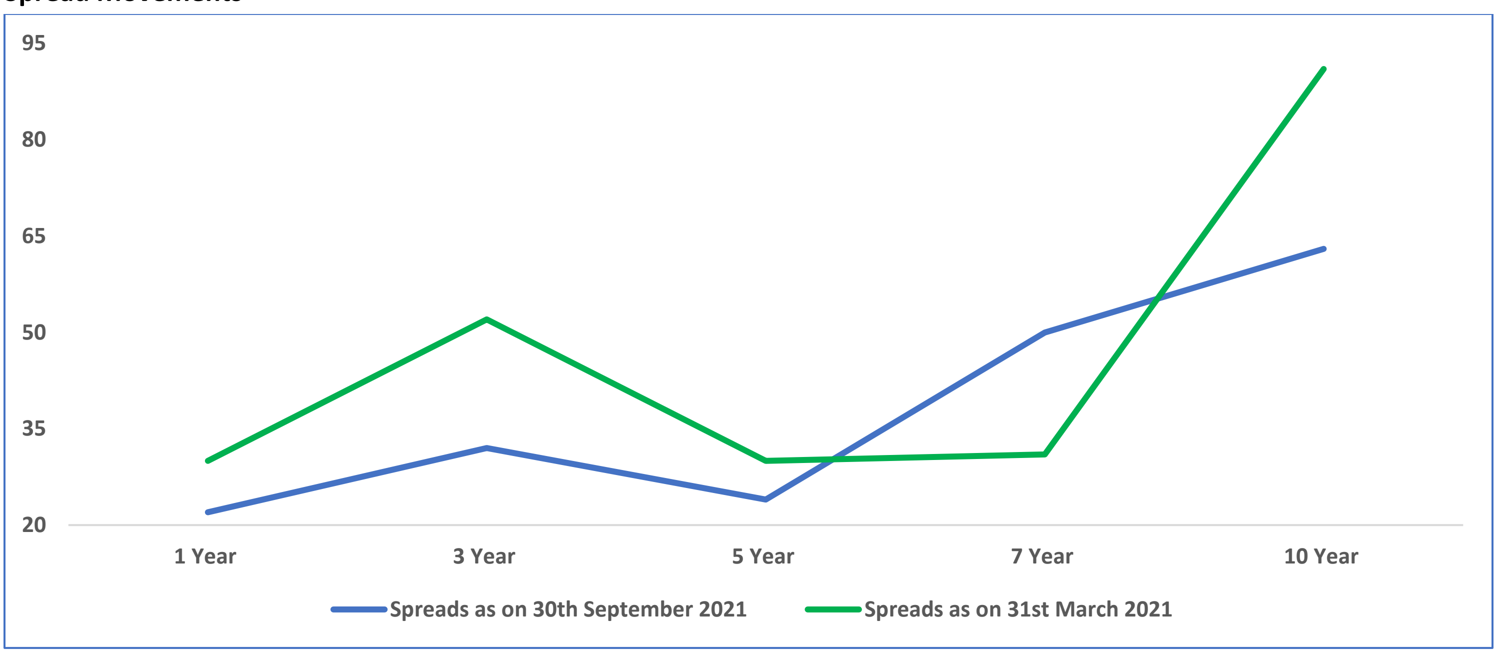
Yield Movements



- Corporate Yields rose by ~20 bps in the 1-year segment and fell by ~20 bps in the 3-year and 10-year segment and by ~5 bps in the 3–5-year segment.

- G-Sec yields rose by ~30 bps in the 1-year segment and fell by ~25 bps in 7-year segment, while being stable in the 3–5-year segment

Spread Movements



- Spreads in the short-medium end of the curve (1–5-year segment) compressed by 5-20 bps.

- Spreads in the 7-year segment widened by ~20 bps and compressed by ~28 bps in the 10-year segment.

Debt Outlook

- Rural demand is likely to remain resilient on record agricultural production and expectations of normal monsoons. Urban demand is likely to get bolstered as pace of vaccination has picked up, rate of new infections is lower and upcoming festival demand should strengthen pent-up demand and activity.
- Improving capacity utilization reforms by the government focusing on infrastructure development, asset monetization, taxation, telecom sector and banking sector should boost investor confidence, enhance capacity expansion, and facilitate crowding in of private investment.
- In the Indian context, the economy recovery is still nascent and service sector has still not come back to its pre pandemic levels. RBI will also take cognisance of the possibility of third wave effecting the Indian economy.
- Globally, we are seeing emerging markets and developed market central bank increase their operating rates due to higher inflation and economic rebounding as lockdown is lifted.
- In the October policy statement, the RBI Governor laid stress upon the fact that economic recovery and growth is still in nascent stage and lags pre-pandemic levels. Hence continued policy support is essential, and any premature normalization could only harm the recovery path.

Yield and Spreads

Yield Movements

Instrument	Yields as on 30th September 2021	Yields as on 31st March 2021	Change between Mat-21 to-Sep 21
1 Year AAA PSU	4.25%	4.05%	20
1 Year G-Sec	**4.03%**	**3.75%**	**28**
3 Year AAA PSU	5.25%	5.45%	-20
3 Year G-Sec	**4.93%**	**4.93%**	**0**
5 Year AAA PSU	5.90%	5.95%	-5
5 Year G-Sec	**5.66%**	**5.65%**	**1**
7 Year AAA PSU	6.56%	6.62%	-6
7 Year G-Sec	**6.06%**	**6.31%**	**-25**
10 Year AAA PSU	6.86%	7.07%	-21
10 Year G-Sec	**6.23%**	**6.16%**	**7**

Source: Bloomberg

Spread Movements

Instrument	Spreads over G-Secs on 30th September 2021 (bps)	Spreads over G-Secs on 31st March 2021 (bps)
1 Year AAA (PSU)	22	30
3 Year AAA (PSU)	32	52
5 Year AAA (PSU)	24	30
7 Year AAA (PSU)	50	31
10 Year AAA (PSU)	63	91

Source: Bloomberg