TATA FLOATING RATE FUND

January 2023

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.

External Circulation

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**

Scheme Risk O Meter

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

Benchmark Risk O Meter

(It may be noted that risk-o-meter specified above is based on the scheme characteristics. The same shall be updated in accordance with provisions of SEBI circular dated October 5, 2020 on Product labelling in mutual fund schemes on ongoing basis.)

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 risks, 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- As on 31st Dec 2022

Instrument-wise Breakdown

SDL	Floating Rate Bond	NCD	Cash & Equivalent
19.67%	72.36%	4.87%	3.10%

Ratings-wise Breakdown

SOV	AAA/A1+	AA+/AA	Cash & Equivalent
19.67%	64.57%	12.65%	3.11%

Fund Metrics

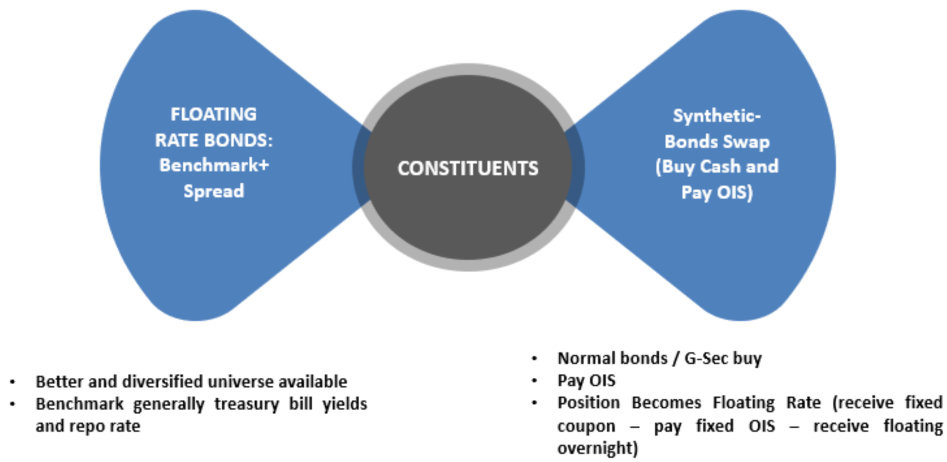
Annualized YTM	Residual Maturity	Macaulay Duration	Modified Duration
7.91%	2.06 Years	1.94 Years	1.84 Years

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 ~72% of the portfolio in these instruments
b) Synthetic Instruments which convert fixed rate securities into floating instruments through swaps. ~25% of the portfolio is comprised of these instruments.



Positioning the Portfolio*

The portfolio of a Floating Rate Fund may 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 portfolio is built 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 ~1.90-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

The December policy was largely on expected lines in terms of quantum of hike but slightly more pragmatic than the market expectations on stance front. This led to some sell-off in the markets and yields have hardened by 5-10 bps across the yield curve.

RBI has maintained the importance of inflation management by committing to first move towards the allowed inflation band i.e., below 6% and thereafter start journey towards reaching close to medium term target of 4% over time. This basically means that RBI is looking at eventually reaching the target with greater certainty and will remain flexible to address the highly uncertain times that we operate in.

RBI has also indicated the current account deficit situation, reserve positions and commitment to ensure financial stability along with orderly evolution of currency. We believe RBI will continue to lay emphasis on macro stability and price stability. Inflation-growth dynamic in India might not warrants a similar quantum move by RBI as some of other central banks. As per our assessment of current conditions 6.50% as terminal repo rate is highly likely as RBI would want to be very sure of reaching close to 4% inflation target even if it means higher repo rate than forward expected inflation (projection at 5.4% for Q2FY24). Further we expect RBI to keep repo rate at elevated level for a longish period and any reversal to this tightening cycle to start only by end of CY23.

We expect yields to largely remain range bound at longer end of curve with 10year benchmark G Sec expect to trade in range of 7.25% to 7.50% with 7.40% fulcrum. At the shorter end of curve (up to 1 year), we expect yields to inch up a bit and would be more influenced by systemic liquidity. Post terminal repo rate and inflation movement on expected trajectory, we expect yields to remain in a narrow band for longish time and next directional move could be on lower side.

Investing in Tata Floating Rate Fund- Rationale

There are 3 key determinants of the direction of the Interest Rate Cycle:

a) Inflation: At Elevated Levels
b) Global Central Bank Actions: Raising rates and unwinding accommodative conditions
c) Current Positioning of RBI: Focusing on Withdrawal of Accommodation and hiking rates

These factors are likely to keep pressure on fixed income securities across the curve. However Floating Rate Funds which are mostly comprised of securities whose yields are yoked to benchmark yields (Repo or T-Bill rates) are suitable for such a rising interest rate environment.

Upward shift of overnight rates bodes well for the fund. Constituent wise, floating rate bonds may benefit from RBI’s rate hikes as treasury bill cut-offs are expected to go up, thereby increasing the accruals of the bonds. Also, with swap levels having gone up, the fund shall benefit from the paid positions in swaps. Going ahead, with expectations of rate hikes and active management of liquidity, we expect the fund to do well as effective duration is less and accruals are expected to go up.