TATA SHORT TERM BOND FUND

November 2022

(An open-ended short-term debt scheme investing in instruments with Macaulay duration between 1 year and 3 years (Refer to page no. 15 of SID). A Relatively High Interest Rate Risk and Moderate Credit Risk.)

TATA MUTUAL FUND

For External Circulation

(The scheme had 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**

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 investment objective of the fund is to generate regular income/appreciation over a short term period. There can be no assurance that the investment objective of the Scheme will be realized.
- The Fund endeavors to create a liquid portfolio of debt & money market instruments to provide reasonable returns and liquidity to investors.

Fixed Income view in brief

US Federal Reserve has indicated the pace of rate hikes should slow down to 50 basis points from Jumbo 75 basis points hike done in previous meetings. U.S CPI inflation for October of 7.70 % seems to indicate some easing of food inflation and rentals. Brent crude prices is trading at 80 – 85 dollar Per barrel range versus USD 90 per barrel. China lockdown and recessionary conditions in developed markets has led to commodity prices correcting sharply.

In the Indian context, two Monetary policy members have expressed reservation of hiking rates when growth is expected to slow down. Food inflation is expected to ease in the coming months due to higher acreage coverage in rabi reason. Lower Food and commodity prices should lead to CPI inflation coming below 6 % levels in the fourth quarter of this financial year. However, the worry is the trade deficit of 25 billion USD , which has been the trend for the last four months. Exports are slowing from August onwards and imports are not reflecting commensurate fall as the domestic economy is resilient to global headwinds. Higher import of oil, coal, electronic items, and capital goods is leading to higher trade deficits.

In its monetary policy reports, RBI is expecting CPI inflation to average 5.2 % for the next financial year. RBI expects real interest rates of 0.75 – 1 % from pre pandemic times. This should bring the repo rates to 5.90 %- 6 % levels which is prevailing now. However, as per RBI monthly report, the import cover is now at 8.6 times of forex reserves. RBI to defend the rupee is expected to rise repo rates by 35 to 50 basis points. Its ability to sell dollars is restricted now as import cover has come down from 14 months at the beginning of the year. In the taper tantrum period of 2013, import cover has gone down to 7 months, which has created upward pressure on the Rupee.

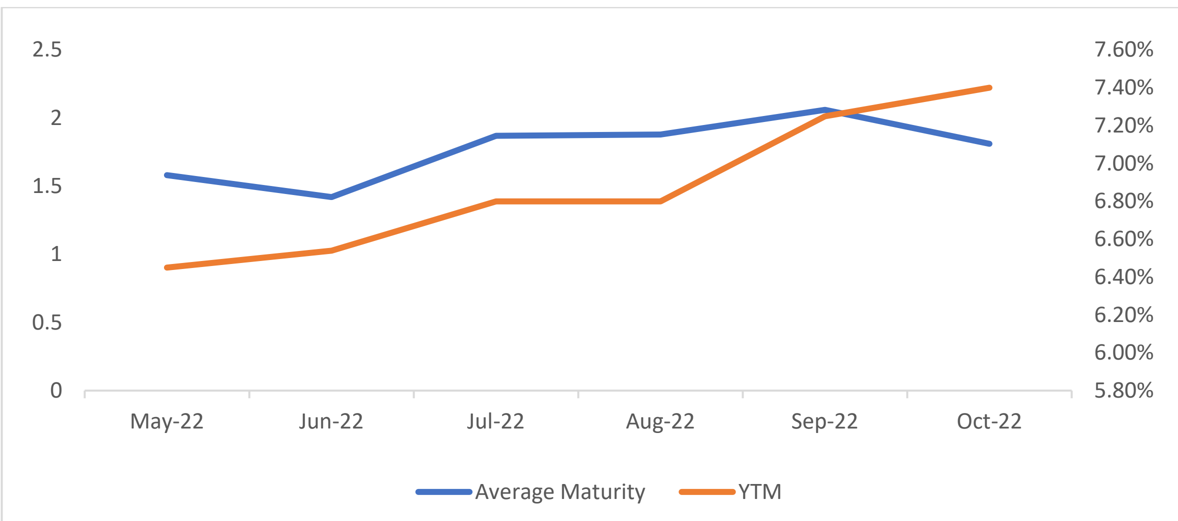
Fund Commentary

At the beginning of the financial year FY23, we cut down our positions to 13 months average maturity as we expected interest rates could go up. As 10-year yield moved from 6.80 % to 7.60 %, we were still in the process of increasing the maturity of the scheme by adding to 3 to 5 years segment and thus had an advantage to peer funds who were running higher avg maturities. When 10-year G-sec yield receded to around 7.30% immediately soon, our portfolio benefited on mark to market gains but peer funds who were at higher avg maturity benefitted more.

In July the average maturity of the fund was close to 2 years. Due to front loading of rate hikes, the short end of the yield curve up to 5 years have moved up and the yield curve has become flat. This impacted the fund with the avg maturity of our fund having moved up to 2 years. But this anomaly is expected to correct as we are close to the end of rate hiking cycle. The fund intends to add to position and bring the average maturity of the fund to 2.2 to 2.5 years by end of December 2022.

Strategy going ahead

The yield curve has become flat, with the one-year bank certificate of deposit at 7.60 % and the ten-year PSU trading at 7.60 % levels. RBI is expected to follow a prolonged pause in rates after hiking repo rates to 6.25 %- 6.50 % levels. The fund is adding positions in the 3-to-5-year segment due to attractive carry and scope for price appreciation.



Fund Overview- As on 31st Oct 2022

Ratings-wise breakdown of the portfolio

Cash & Equivalents	SOV	AAA/A1+
9.54%	28.14%	62.31%

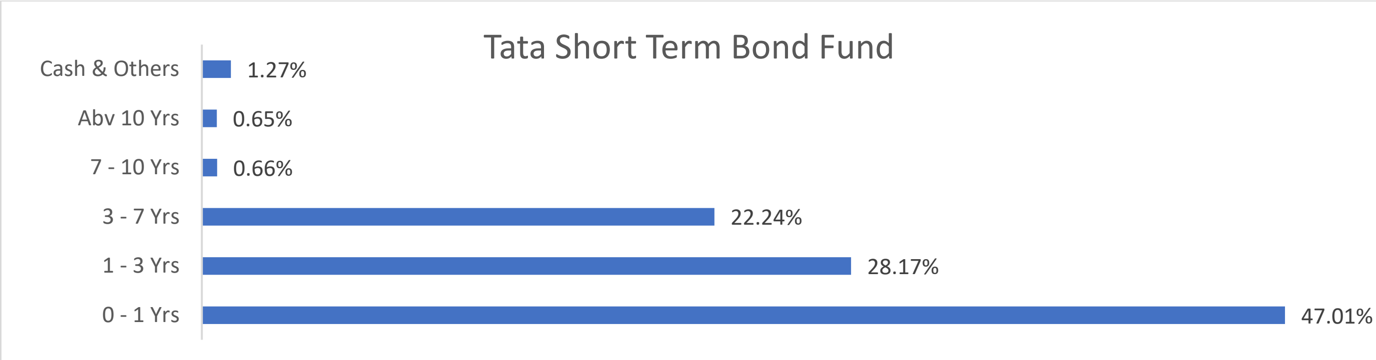
Instrument-wise breakdown of the portfolio

Cash & Cash Equiv	G-sec	SDL's	CD's	NCD's	OTHERS
9.54%	24.18%	3.96%	18.50%	39.55%	4.27%

Fund Metrics

Average Maturity	Macaulay Duration	Modified Duration	YTM
1.81 Years	**1.62 Years**	**1.55 Years**	**7.40%**

Maturity-wise breakdown of the Portfolio



Current Portfolio Strategy*

Maturity	Accrual	Portfolio Quality
• The portfolio is biased towards short term instruments with ~75% in the 0-3 year segment • The fund holds ~23% in the more than 3 year segment.	• The YTM of the portfolio is 7.40% • The scheme runs an accrual strategy	• The portfolio comprises of ~62% in AAA/A1+ rated securities • Fund has ~28% assets invested in SOV papers

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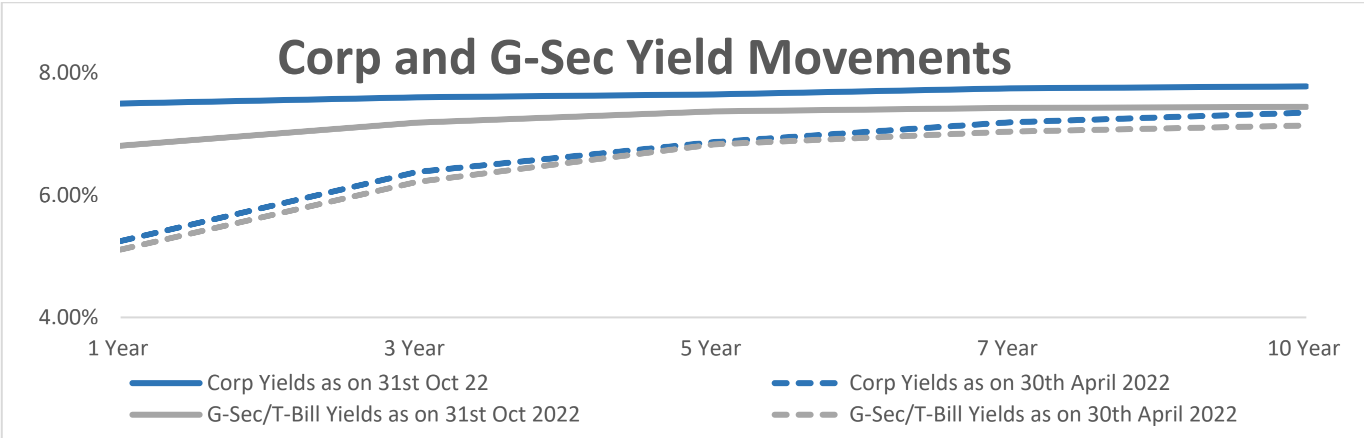
Source: RBI MPC Announcement

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 generate accrual returns from high quality bonds and G-Secs. Fund is suitable for investors looking for an accrual-based portfolio for a short-term investment horizon.

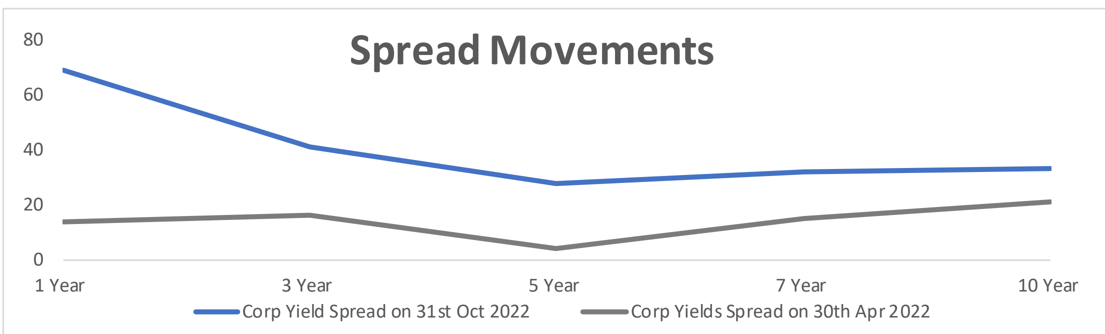
***Based on current market scenario. Strategy is subject to change without notice.**

Movement of Yields and Spreads: April-2022 to October-2022



- Corporate yields in the 1–5-year segment rose by ~165-200 bps, while rising by ~90 bps in the 7-10-year segment.
- G-Sec yields rose by ~155-185 bps in the 1-5-year segment, and by 100-125 bps in the 7–10-year segment.

Spread Movements



- Spreads widened by 20 bps in the 1-year segment and ~10 bps in the 5-year segment.
- Spreads in the 3-year segment compressed by ~10 bps and by 20-30 bps in the 7–10-year segment.

Yield and Spreads

Yield Movements

Instrument	Yields as on 31st October 2022	Yields as on 30th April 2022	Change between Oct-22-Apr-22
1 Year AAA-PSU	7.50%	5.25%	225
1 Year G-Secs	**6.81%**	**5.11%**	**170**
3 Year AAA-PSU	7.60%	6.38%	122
3 Year G-Secs	**7.19%**	**6.22%**	**97**
5 Year AAA-PSU	7.65%	6.87%	78
5 Year G-Secs	**7.37%**	**7.26%**	**11**
7 Year AAA-PSU	7.75%	7.19%	56
7 Year G-Secs	**7.43%**	**7.36%**	**7**
10 Year AAA-PSU	7.78%	7.35%	43
10 Year G-Secs	**7.45%**	**7.45%**	**0**

Source: Bloomberg

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