

TATA MEDIUM TERM FUND- JULY 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)

(The scheme has 1 segregated portfolio)



For External Circulation

Data as on 15th July 2021

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.



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

In the past few months, the fund had reduced its average maturity from the ~4.15-year levels in February-21 to the ~3.90-year levels in March-July 2021.

The fund benefited from the overweight allocation to AA-rated and sovereign (SOV) papers with respect to the benchmark. The fund was underweighted in AAA papers compared to benchmark and will maintain allocations.

The fund has been overweight in the 1–3-year segment and in the 5–10-year segment in comparison to the benchmark, while being significantly underweight in the 3–5-year segment.

Ratings-wise Breakdown of the Portfolio

Scheme	Cash	SOV	AAA	Sub-total	AA	AA-	Total
Tata Medium Term Fund	3.42%	16.56%	56.17%	76.15%	17.15%	6.70%	100%

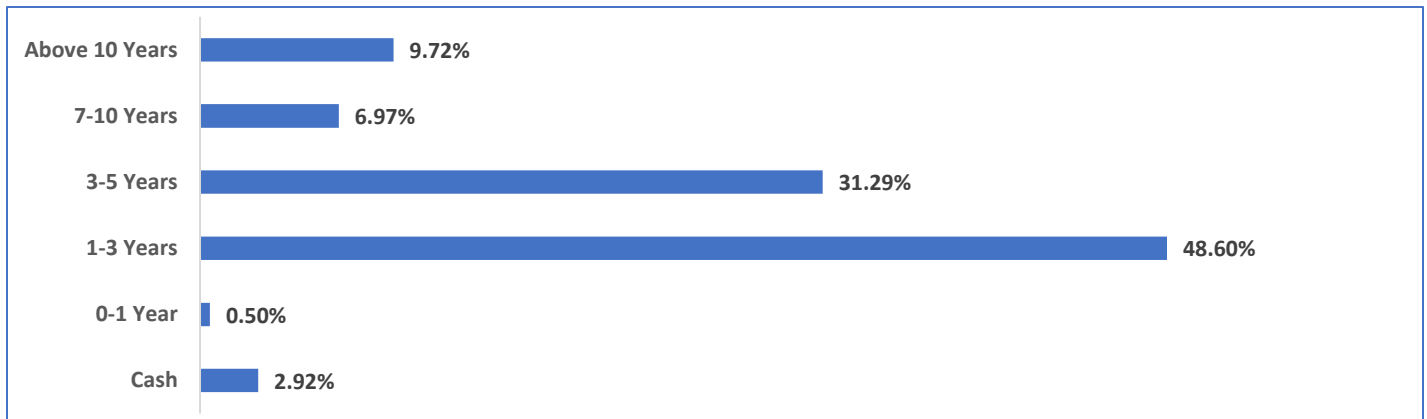
Instrument-wise breakdown of the Portfolio

Scheme	Cash	G-Secs	PSU Bonds	Sub-Total	Non-PSU Bonds	Total
Tata Medium Term Fund	3.42%	16.56%	24.21%	44.19%	55.81%	100%

Fund Metrics

YTM	Average Maturity	Macaulay Duration	Modified Duration
6.48%	3.99 Years	3.29 Years	3.14 Years

Maturity Profile



Current Portfolio Strategy*

Maturity	Liquidity	Accrual	Portfolio Quality
<ul style="list-style-type: none">•Portfolio is biased towards short to medium term securities.•~49% of the portfolio is invested in the 0-3 years segment and ~31% of the portfolio in the 3-5 years segment.•~17% of the portfolio is invested in the 5 years and above segment	<ul style="list-style-type: none">•Portfolio is sufficiently liquid with ~24% in AAA-PSU Bonds and 17% in G-Secs.	<ul style="list-style-type: none">•YTM of the portfolio is 6.48%•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	<ul style="list-style-type: none">•The portfolio is of a high quality, with ~56% in AAA, 17% in G-Secs•The scheme is oriented towards investing in cash generating companies or with a strong group support

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

Securities Concentration

In comparison with the benchmark, the fund is significantly overweight in G-Secs and in AA/AA- rated bonds, while being underweight in AAA-rated bonds. The majority of the fund's investments in AAA rated papers are issued by PSU companies (~24% in PSU issuers out of ~56% allocated to AAA papers).

The fund has diversified its exposure investing across energy, cement, auto, infra structure, NBFCs, banks etc. The fund has also taken some select exposure in AA/AA- rated securities (~24%) in order to add accrual. The fund may take concentrated positions in select issuers.

Investing in Tata Medium Term Fund- Rationale

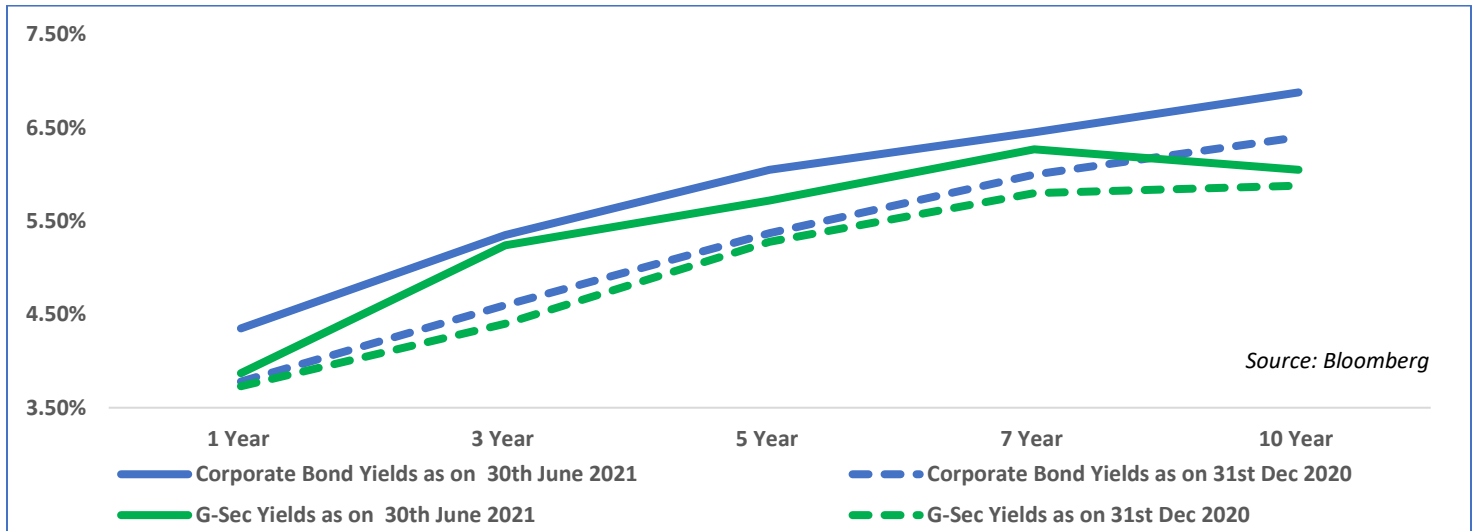
The fund strategy is on the following lines:

- The fund will maintain duration at current levels as this may reduce some risk associated with a rising interest rate scenario
- The fund manager believes that accrual can be a better strategy compared to duration risk and the portfolio will be managed in accordance with this view

The investment objective of the scheme is to generate income and capital appreciation over a medium term. Investing in the fund gives investors access to a high-quality portfolio of securities for an investment horizon of 3-4 years.

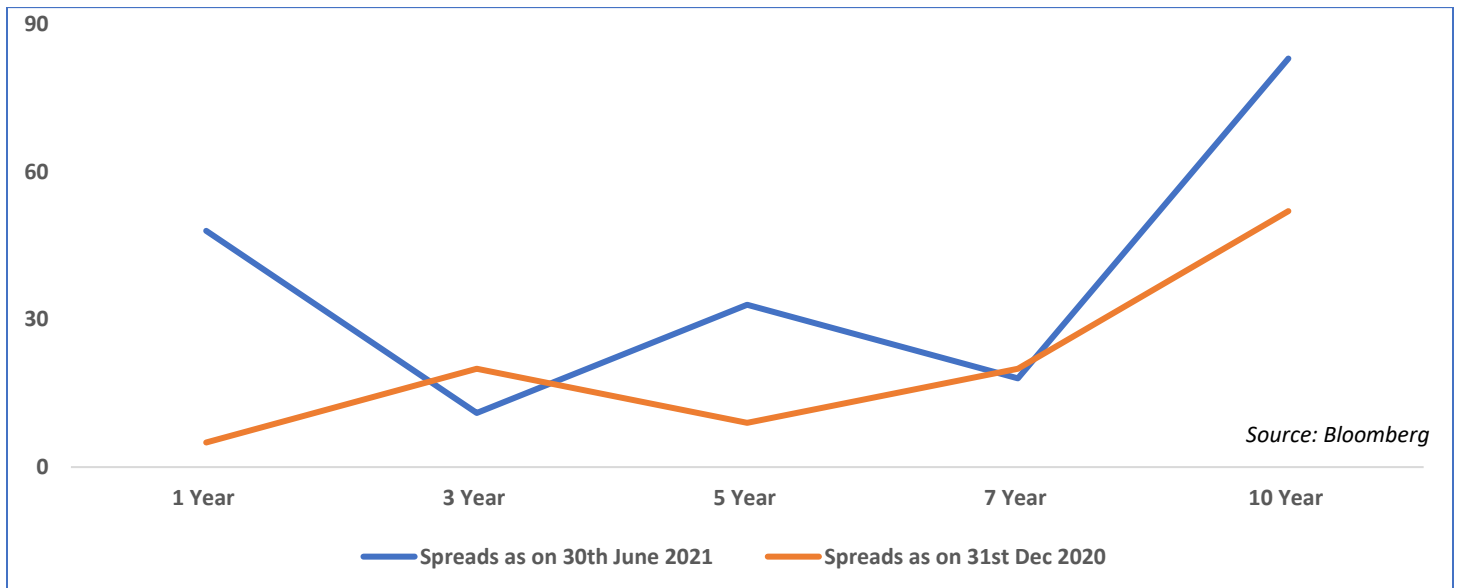
Movement of Yields and Spreads: December-2020 to June-2021

Yield Movements



- Corporate yield curve had an upward shift of 45-75 bps with 3-7 year seeing more significant movement
- G-Sec Yields curve moved upwards sharply in 3-7-year segment by 45-85 bps. 10-year segment saw modest upward shift of ~15 bps.

Spread Movements



- Spreads widened in the 1- and 10-year segments by ~30-45 bps and by ~25 bps in the 5-year segment.
- Spreads in the 3 and 7-year segments remained comparatively stable

Debt Outlook

- The recovery of the Indian economy seems to be pushed back due to the second wave of the pandemic, which has seen record level of infections and deaths. 40 % to 50 % of the population is likely to get vaccinated in the next 6 months, in the best-case scenario.
- We expect RBI to intervene decisively, especially in the short end of the yield curve to support bond prices.
- RBI would like to be sure of growth impulses getting firmly entrenched before it starts withdrawing its accommodative monetary policy stance. RBI would also like to guard against the third wave of covid in India which has engulfed countries like Australia, UK.
- Global macro-economic environment continues to be growth positive, with most advanced economy expected to start withdrawing monetary accommodation from next year onwards. The US is expected to at the forefront with Federal Reserve expected to hike rates in the second half of 2023.
- Additional borrowing for GST compensation cess and stimulus package announced by the government is expected to happen in less than 7-year segment.

Yield and Spreads

Yield Movements

Instrument	Yields as on 30 th June 2021	Yields as on 31 st December 2021	Change between Dec 20 to-June 21
1 Year AAA PSU	4.35%	3.78%	57
1 Year G-Sec	3.87%	3.73%	14
3 Year AAA PSU	5.35%	4.60%	75
3 Year G-Sec	5.24%	4.40%	84
5 Year AAA PSU	6.05%	5.37%	68
5 Year G-Sec	5.72%	5.28%	44
7 Year AAA PSU	6.45%	6.00%	45
7 Year G-Sec	6.27%	5.80%	47
10 Year AAA PSU	6.88%	6.40%	48
10 Year G-Sec	6.05%	5.88%	17

Source: Bloomberg

Spread Movements

Instrument	Spreads over G-Secs on 30 th June 2021 (bps)	Spreads over G-Secs on 31 st Dec 2021 (bps)
1 Year AAA (PSU)	48	5
3 Year AAA (PSU)	11	20
5 Year AAA (PSU)	33	9
7 Year AAA (PSU)	18	20
10 Year AAA (PSU)	83	52

Source: Bloomberg

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