

TATA BANKING & PSU FUND- JULY 2021 UPDATE

(An open ended debt scheme predominantly investing in debt instruments of Banks, Public Sector Undertakings, Public Financial Institutions and Municipal Bonds.)



For External Circulation

Data as on 30th June 2021

This product is suitable for investors who are seeking*:

- Regular Income Over Short Term to Medium Term.
- Predominant investment in Debt & Money Market instruments issued by Banks, Public Sector Undertakings & Financial Institutions.

*Investors should consult their financial advisors if in doubt about whether the product is suitable for them



RISK - O - METER
Investors understand that their principal will be at Moderate Risk

Mutual Fund investments are subject to market risk, read all scheme related documents carefully.

About the Fund

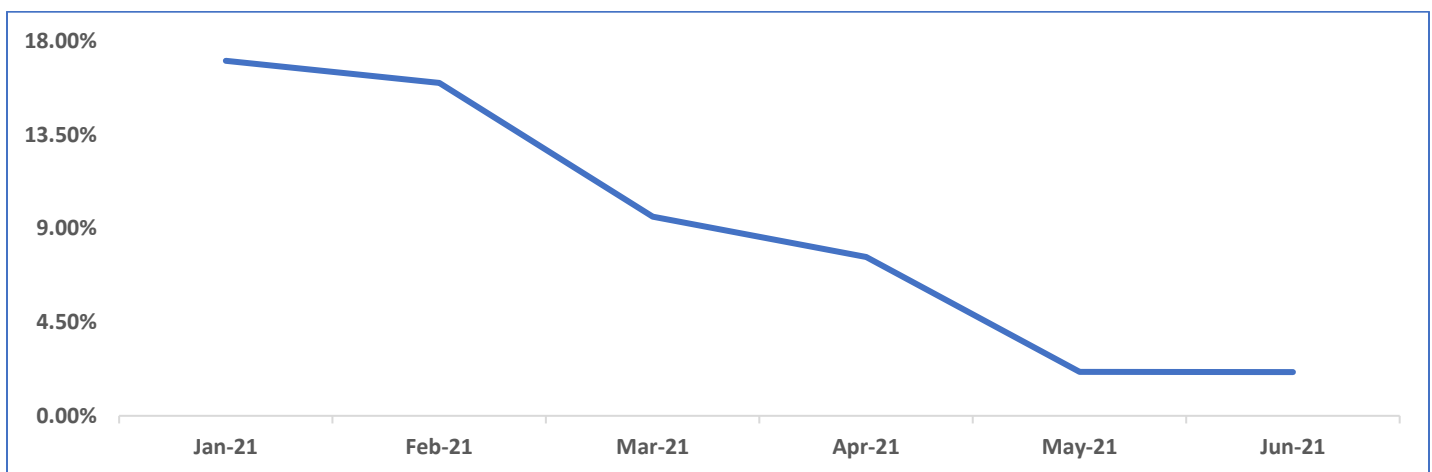
- The investment objective of the fund is to generate regular income/appreciation over the short-term.
- The Fund endeavors to create a liquid portfolio of debt as well as money market instruments to provide reasonable returns and liquidity to investors.

Fund Commentary

As on 30th June 2021, the fund has ~82% in instruments from SOV or AAA-rated issuers and ~10% in A1+ papers. ~18% of the portfolio is invested in G-Secs and SDLs, ~54% in PSU bonds & debentures, 13% in bonds issued by banks, ~10% in Certificates of Deposit and ~6% in cash & equivalents.

The fund has shifted allocations towards AAA-PSU bonds, increasing from ~38% in December-20 to ~54% in June-21. The fund will continue to focus on accruals.

Allocation to AT-1 Bonds



The fund has significantly reduced exposure to AT-1 Bonds from ~17% in Jan-21 to ~2% in June 2021.

Fund Overview

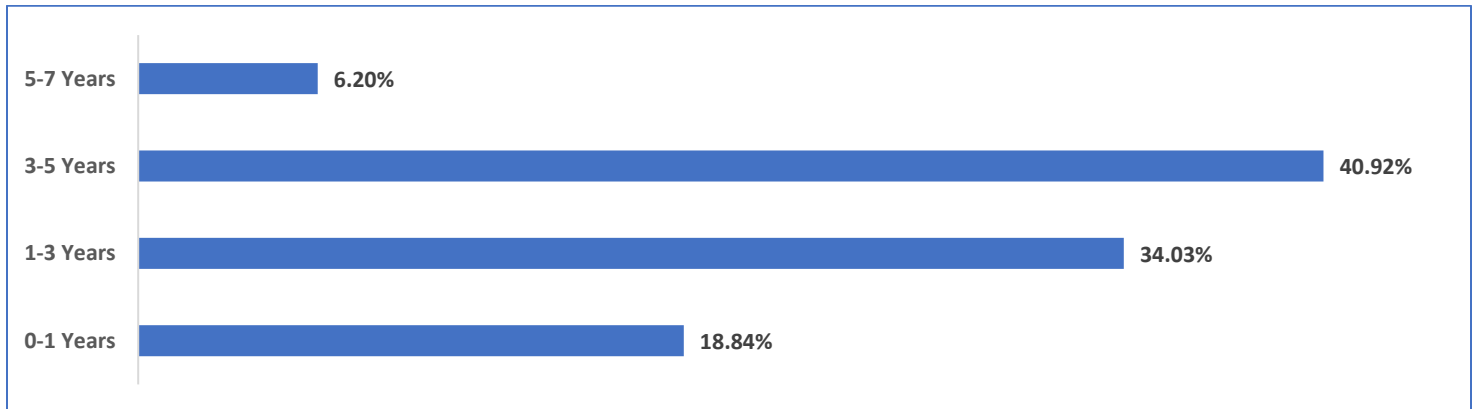
Ratings-wise Breakdown of the Portfolio

Scheme	Cash & Equivalents	SOV	AAA	AA+	A1+	Total
Tata Banking & PSU Debt Fund	5.50%	17.53%	64.71%	2.10%	10.15%	100%

Instrument-wise Breakdown of the Portfolio

Scheme	Cash & Equivalents	G-secs	SDLs	PSU Bonds	Total	Instruments Issued by Banks	Grand Total
Tata Banking & PSU Fund	5.50%	13.28%	4.25%	53.82%	76.85%	23.15%	100%

Maturity-wise breakdown of the Portfolio



Fund Metrics

Average Maturity	Macaulay Duration	YTM
3.10 Years	2.66 Years	5.22%

Current Portfolio Strategy*

Maturity	Liquidity	Accrual	Portfolio Quality
<ul style="list-style-type: none"> •The portfolio is biased towards the short to medium term with ~53% of the portfolio in the 0-3 year segment and 46% in the 3-5 year segment. 	<ul style="list-style-type: none"> •Portfolio is highly liquid, with ~18% in G-Secs, ~54% in AAA-PSUs and ~10% in CDs. 	<ul style="list-style-type: none"> •The YTM of the portfolio is 5.22% 	<ul style="list-style-type: none"> •The portfolio is comprised of ~77% assets in AAA-rated issuers •Fund has ~17% assets invested in G-Secs/SDLs

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

Investment in Tata Banking & PSU Debt Fund- Rationale

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. The RBI governor has indicated that premature withdrawal of accommodative monetary policy stance can reverse the trepid growth momentum which has built up in the economy.

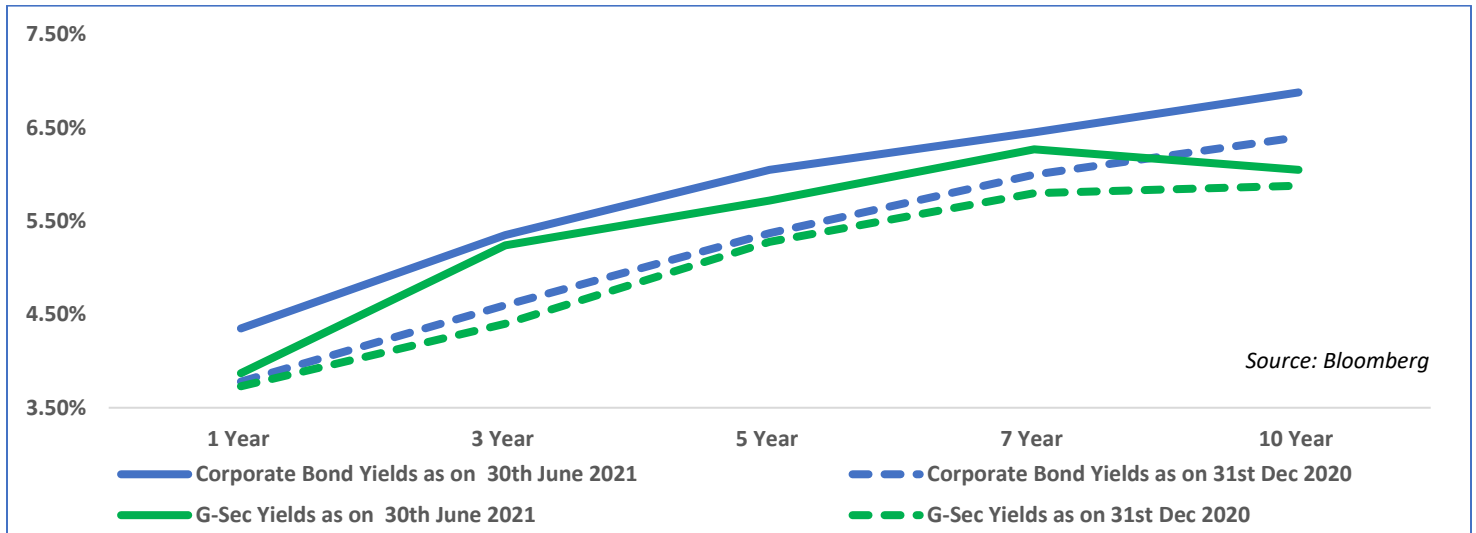
RBI is expected to intervene decisively, especially in the short end of the curve to support bond prices as the government and corporates are expected to borrow in this segment.

We expect that corporate bond yields are likely to remain range bound in the near-term as RBI takes conventional and unconventional measures to support yields before inching up in the medium term. Net liquidity in the banking system is likely to remain comfortably in surplus over the medium term.

The Tata Banking & PSU Debt Fund would be a good opportunity for investors looking to invest in a high- quality portfolio with a 1-3-year investment horizon.

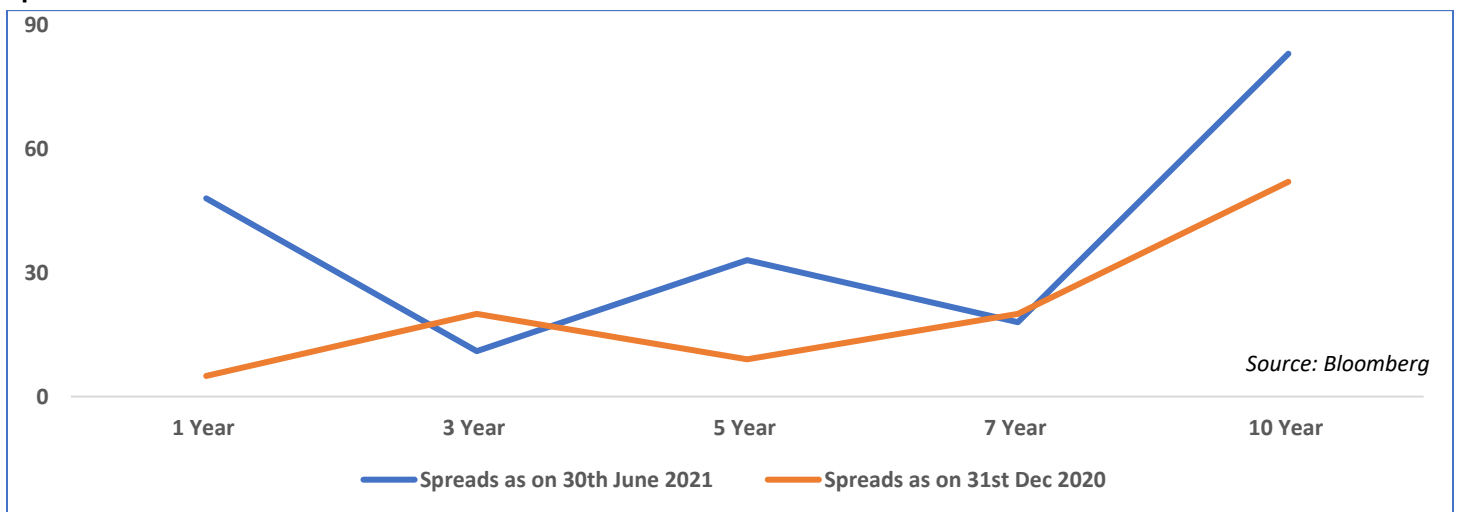
Movement of Yields and Spreads: December-2020 to June-2021

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.

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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