TATA DYNAMIC BOND FUND- JULY 2021 UPDATE

(An open-ended dynamic scheme investing across duration)

TATA MUTUAL FUND

For External Circulation

All Data as on 30th June 2021

This product is suitable for investors who are seeking*:

- Short Term to Medium Capital Appreciation.
- 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**

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 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 fund is currently running an accrual strategy and over the past few months, it has added AA+ rated papers while reducing allocations to AA papers. Allocations in the AAA and SOV papers have remained steady over the past few months. In the past few months, as yields have risen, the fund has significantly reduced maturity and duration levels from the 2.70-year in February-21 to ~1.95-year levels in June-21.

In comparison to the benchmark, the fund has taken a significantly lower duration and accrual portfolio due to overweight positions in the 1–3-year segment. In terms of securities, the fund is significantly underweighted in SOV-papers, while having overweight positions in corporate bonds and money market instruments.

Fund Overview

Ratings-wise breakdown of the portfolio

Scheme	Cash & Equivalents	SOV	AAA	AA+	AA	A1+	Total
Tata Dynamic Bond Fund	4.11%	11.94%	63.68%	6.95%	6.75%	6.58%	**100%**

Instrument-wise breakdown of the portfolio

Scheme	Cash & Equivalents	G-secs	CP	PSU Bonds	Total	Non-PSU Bonds	Grand Total
Tata Dynamic Bond Fund	4.11%	11.94%	6.58%	25.86%	**48.49%**	51.51%	**100%**

Fund Metrics

Average Maturity	Macaulay Duration	YTM
2.00 Years	1.86 Years	5.44%

Maturity-wise breakdown of the Portfolio

Current Portfolio Strategy*

Maturity

- The portfolio is biased towards short term instruments with ~92% in the 0-3 year segment and ~5% in the 3-5 year segment

Liquidity

- Portfolio is sufficiently liquid, with ~7% in money market instruments, ~12% in G-Secs and ~26% in AAA-PSU bonds.

Accrual

- The YTM of the portfolio is 5.44%
- The fund endeavored to build accruals by investing in AA+/AA rated bonds.

Portfolio Quality

- The portfolio comprises of ~70% in AAA/A1+ rated securities
- Fund has ~12% assets invested in G-Secs

Due to second wave of Covid-19, Rate hike expectations 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.

He has also indicated that RBI will act decisively to support bond prices in the short end of the yield curve, which could help the fund as it is predominantly invested in this maturity segment.

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

Investment in Tata Dynamic Bond Fund- Rationale

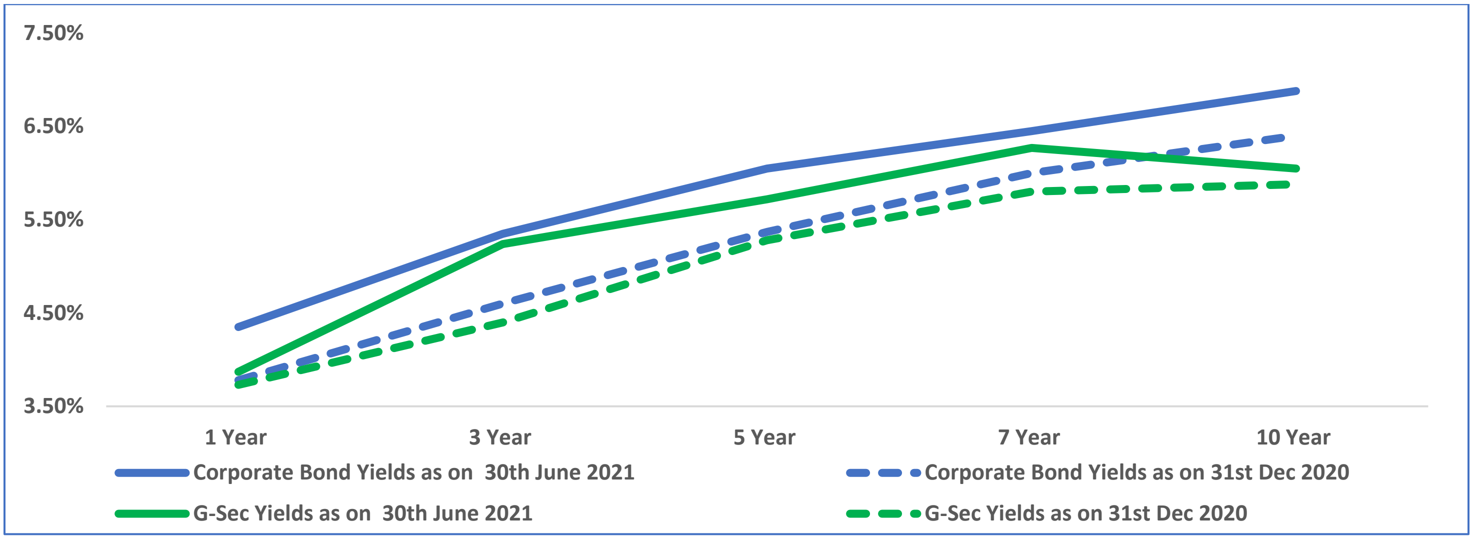
In the coming months of the financial year, yields are likely to have an upwards bias, especially as the economy continues to deal with the second wave of the coronavirus.

Under above conditions it would be prudent to reduce the allocation to duration and shift to accrual strategy. Tata Dynamic Bond Fund has the flexibility to take positions across maturities and to change allocations across instruments.

The fund predominantly follows an accrual strategy. The addition of high-quality bonds and lower duration ensures that the fund would not be adversely impacted by a fall in liquidity and/or rising yields, while generating healthy accrual returns.

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

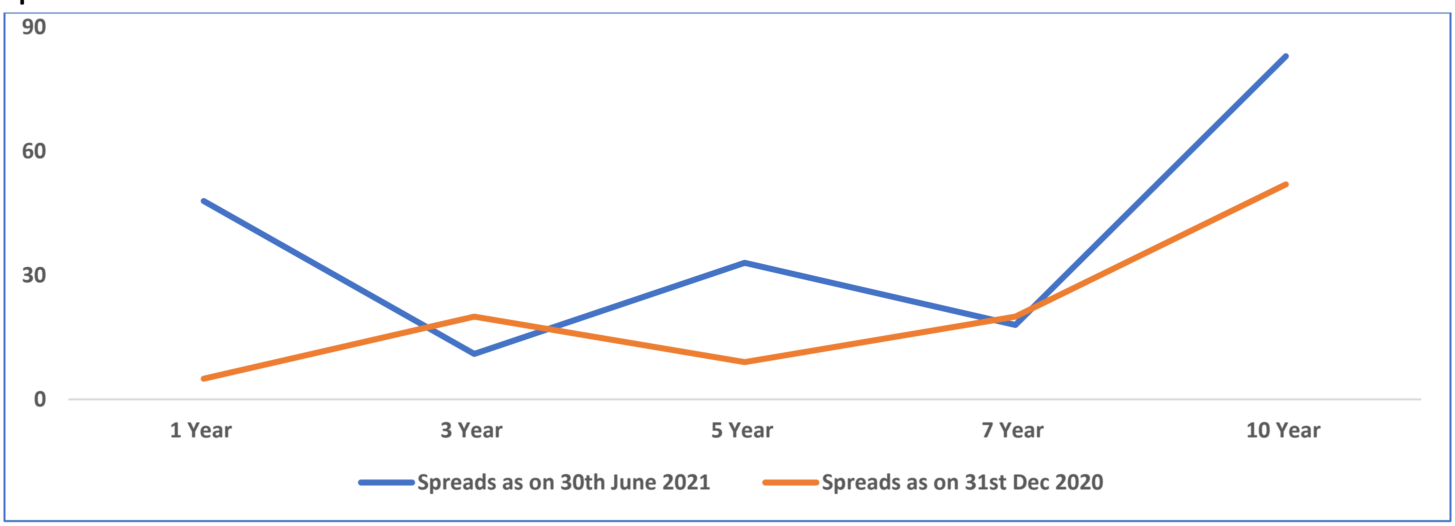
Yield Movements



- 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 30th June 2021	Yields as on 31st 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: NSE/Bloomberg

Spread Movements

Instrument	Spreads over G-Secs on 30th June 2021 (bps)	Spreads over G-Secs on 31st 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: NSE/Bloomberg