TATA SHORT TERM BOND FUND- JULY 2021 UPDATE

(An open-ended short-term debt scheme investing in instruments such that the Macaulay Duration of portfolio is between 1 year and 3 years.)

For External Circulation

(The scheme has 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).

All Data as on 30th June 2021

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**

Investors understand that their principal will be at Low to 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 portfolio's performance with respect to the benchmark in the past year can be attributed to the average maturity, higher allocation to corporate bonds, Government securities and quality of the portfolio.

Since Jan-21, the fund has reduced its average maturity from the ~3-year levels to 2-year levels in June-21 as yields have risen across maturities. In the past 6 months, the fund maintained a significantly higher allocation to G-Secs compared to the benchmark. The portfolio had overweight positions in CDs and while being underweight in CPs.

The fund was under-weight in AAA papers, however, with greater exposure to PSU papers. This caused fund YTM to be lower the fund invested in papers with relatively lower credit risk. The overweight position in money market instruments had a positive impact on the fund performance.

Fund Overview

Ratings-wise breakdown of the portfolio

Scheme	Cash & Equivalents	SOV	AAA	A1+	Total
Tata Short Term Bond Fund	3.44%	28.79%	52.22%	15.57%	**100%**

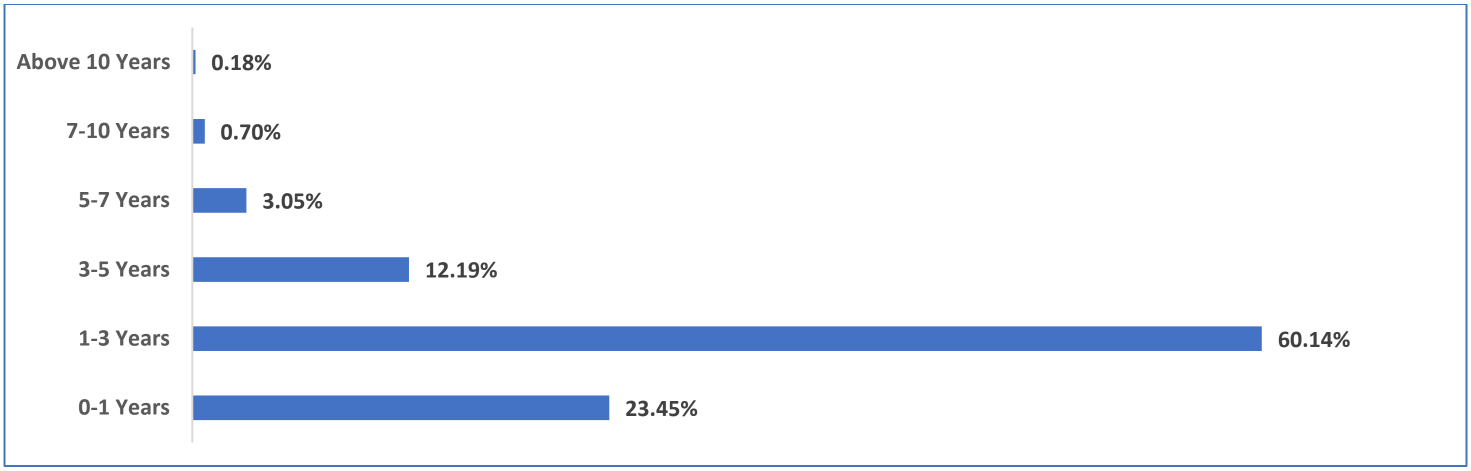
Instrument-wise breakdown of the portfolio

Scheme	Cash & Equivalents	G-secs	CD	CP	T-Bill	PSU Bonds	Total	Non-PSU Bonds	Grand Total
Tata Short Term Bond Fund	3.44%	25.44%	6.68%	8.89%	3.35%	29.39%	**82.59%**	17.41%	**100%**

Fund Metrics

Average Maturity	Macaulay Duration	YTM
2.05 Years	1.87 Years	4.90%

Maturity-wise breakdown of the Portfolio



Current Portfolio Strategy*

Maturity	Liquidity	Accrual	Portfolio Quality
•The portfolio is biased towards short term instruments with ~83% in the 0-3 year segment and ~15% in the 3-7 year segment	•Portfolio is highly liquid, with ~15% in money market instruments, ~29% in G-Secs & T-Bills and ~29% in AAA-PSU bonds.	•The YTM of the portfolio is 4.90%	•The portfolio comprises of ~68% in AAA/A1+ rated securities •Fund has ~29% assets invested in SOV papers

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 fund manager has reduced maturity and duration as yields have risen.

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.

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

Allocation to G-Secs in the Portfolio

RBI has been conducting Government Securities Acquisition Program (GSAP)/OMO operations to keep interest rates low. RBI Governor has stated he will do both unconventional and conventional policy to keep interest rates low to support economic growth.

G-Sec yields are expected to remain stable on the basis of RBI's stated intention to ensure orderly evolution of the G-Sec curve and reduce volatility to ensure a stable rate structure. RBI Governor has endeavored to support the government's borrowing program. RBI has now bought ~65% of the benchmark 10-year G-Secs since the inauguration of the G-SAP. As longer term and shorter-term yields are expected to remain stable due to government intervention, the fund holds a ~29% position in SOV papers which is significantly higher than the benchmark.

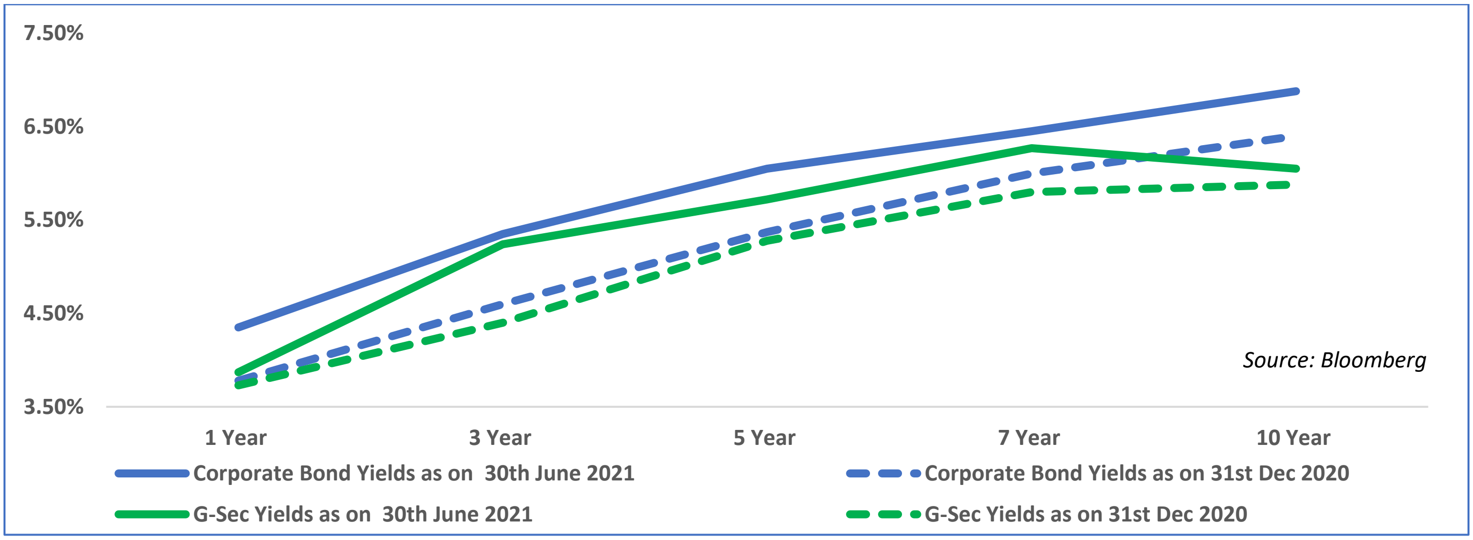
Investment in Tata Short Term Bond Fund- Rationale

- The scheme has a duration band of 1 to 3 Macaulay duration. This converts into a maximum average maturity of 3.8 years. The Fund has a high-quality portfolio currently heavy towards G-Secs with respect to the portfolio.
- Maturities are biased towards high quality and 0-5-year papers. The fund is biased towards safer instruments given domestic and global uncertainties.

- The fund is positioned to predominantly generate accrual returns from high quality bonds and G-Secs

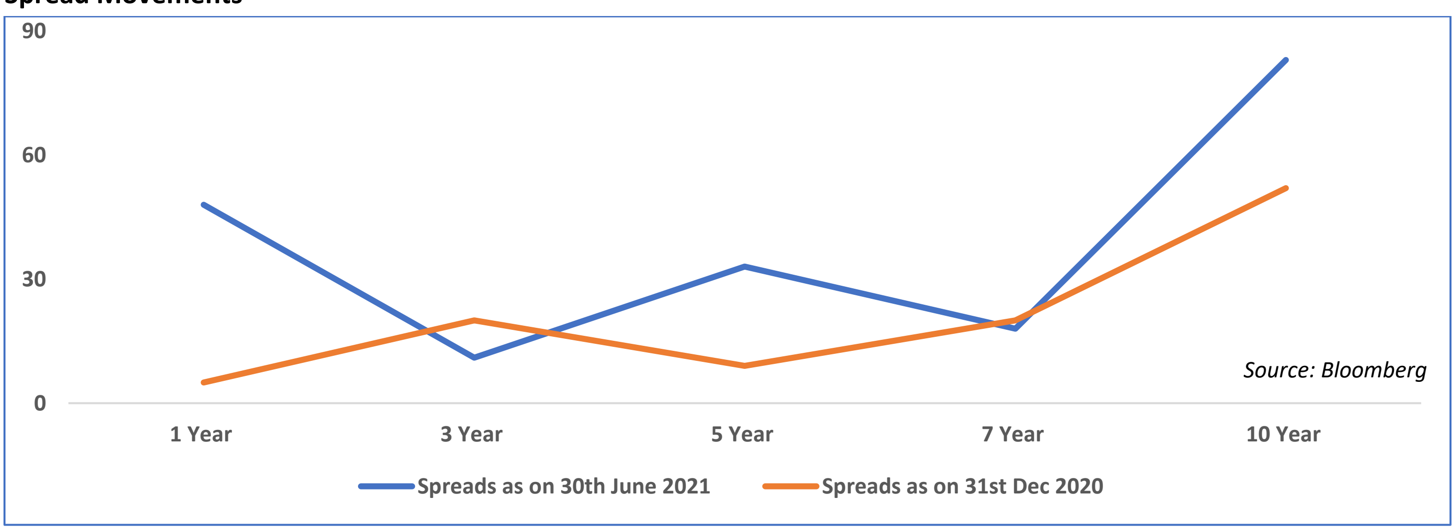
Movement of Yields and Spreads: December-2020 to June-2021

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: 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: Bloomberg

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