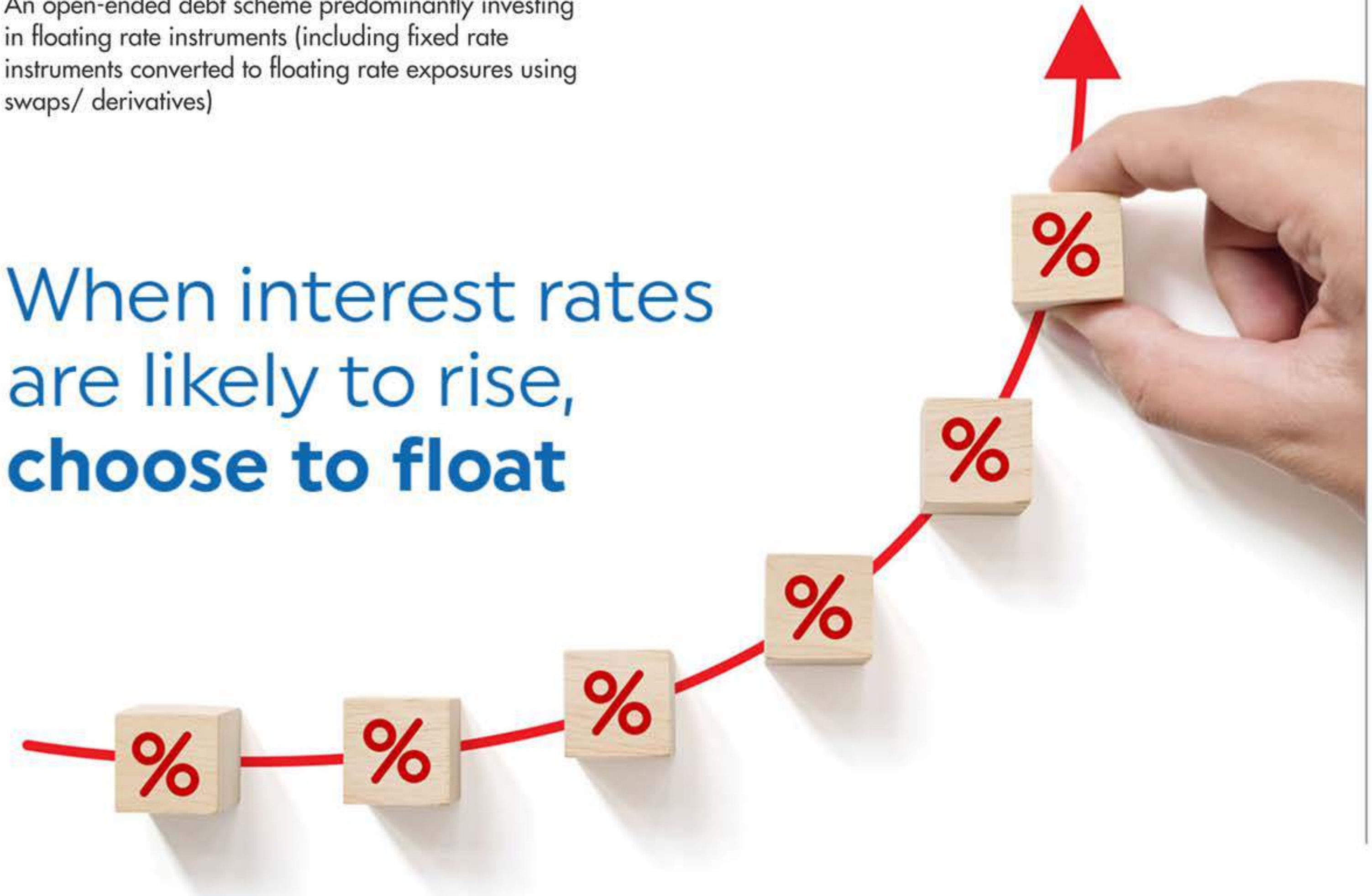
TATA FLOATING RATE FUND

An open-ended debt scheme predominantly investing in floating rate instruments (including fixed rate instruments converted to floating rate exposures using swaps/ derivatives)

TATA MUTUAL FUND

When interest rates are likely to rise, **choose to float**



NFO OPENS : 21ST JUNE, 2021
NFO CLOSES : 05TH JULY, 2021

Investors understand that their principal will be at Moderate Risk

This product is suitable for investors who are seeking*:

- Regular Income by investing predominantly in a portfolio of floating rate instruments (including fixed rate instruments converted for floating rate exposures using swaps / derivatives)

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

WHAT IS FLOATING RATE INSTRUMENT?

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Floating Rate Coupon

Floating Rate instruments are debt securities which pay a floating rate coupon

Coupon rates are benchmarked with a spread

- Coupon rates are based on a benchmark reference rate like MIBOR (Mumbai Inter-Bank Offer Rate).
- A Spread is added to the Benchmark rates to determine the Coupon rates
- Spreads vary depending upon prevailing credit spreads and demand & Supply conditions

Coupon is Reset over pre-determined frequency

Coupons change after every reset period – for e.g 3 months or 6 months

WHAT IS FLOATING RATE INSTRUMENT?

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3.50%	+	2.0%	=	5.50%
BENCHMARK REFERENCE RATE		FIXED SPREAD		COUPON RATE OF FLOATING RATE DEBT

In a Floating rate instrument, the spread is a function of several factors including the credit spread of the issuer to the outlook on interest rates and demand and supply conditions

EXAMPLE OF A FLOATING RATE DEBT SECURITY

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XYZ company issues a floating rate security which pays MIBOR + 200 bps as coupon with a reset frequency of 6 months and matures in 3 years

Timeline	MIBOR Rate	Spread	Coupon Rate applicable
Issue Date	3.50%	2.00%	5.50%
For 2nd Half Year period	3.75%	2.00%	5.75%
For 3rd Half Year period	4.00%	2.00%	6.00%
For 4th Half Year period	4.25%	2.00%	6.25%
For 5th Half Year period	4.00%	2.00%	6.00%
For 6th Half Year period	4.25%	2.00%	6.25%

BENEFITS OF A FLOATING RATE INVESTMENT

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Coupon payments reflecting the prevailing interest rate regime

Coupon payments are aligned with the changing interest rate and hence, provides opportunity to gain from a rising interest rate scenario

Lower Sensitivity to interest rate risk vs Fixed Rate Bonds

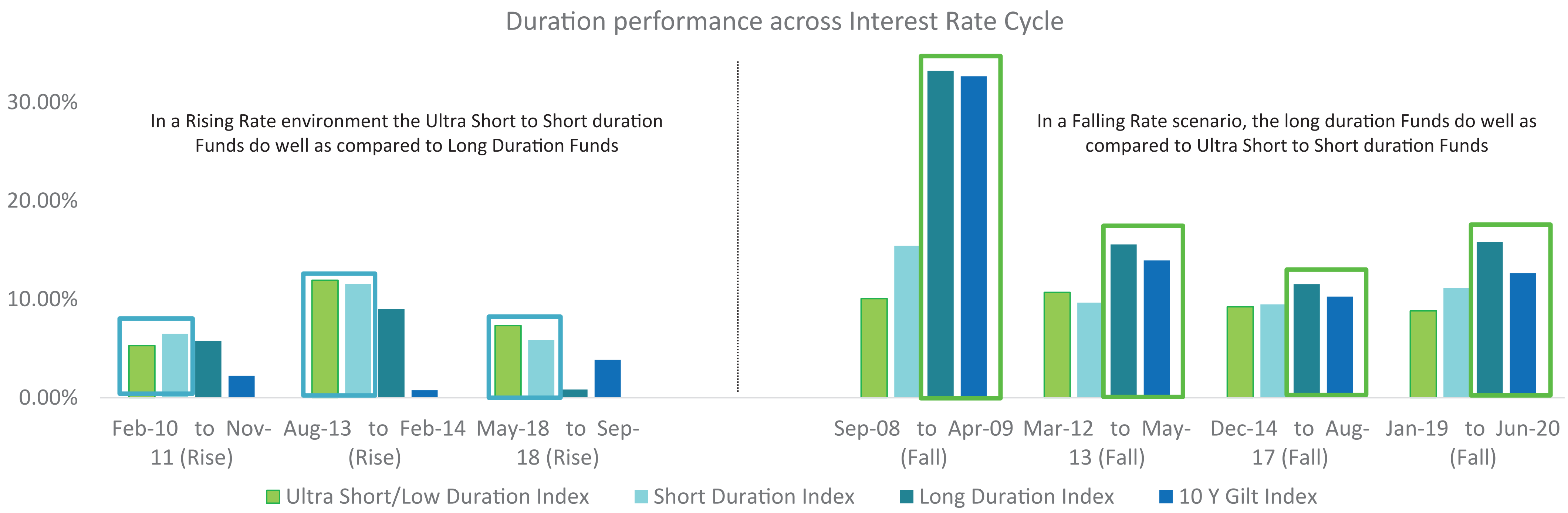
With interest rates reset in shorter frequency the interest sensitivity of the Bonds are lower as compared to Fixed Rate Bonds

Diversification of Portfolio

Provides options to investors to diversify their portfolio of fixed rate securities and reduce the overall portfolio risk

INTEREST RATE SCENARIOS AND FLOATING RATE FUNDS

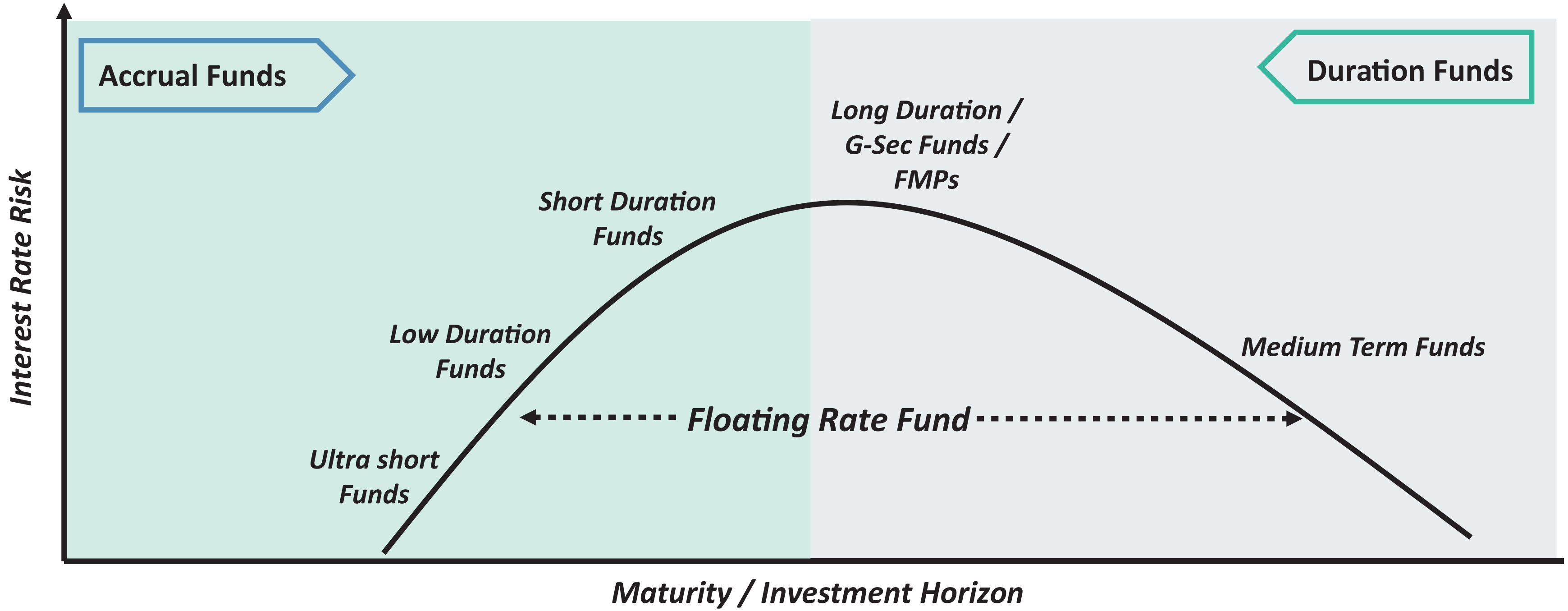
DIFFERENT INTEREST RATE SCENARIO REQUIRE DIFFERENT DURATION STRATEGIES



It is prudent to shift between Duration and Accrual strategies in view of the interest rate cycle movements

Source: RBI. Bloomberg and AMFI

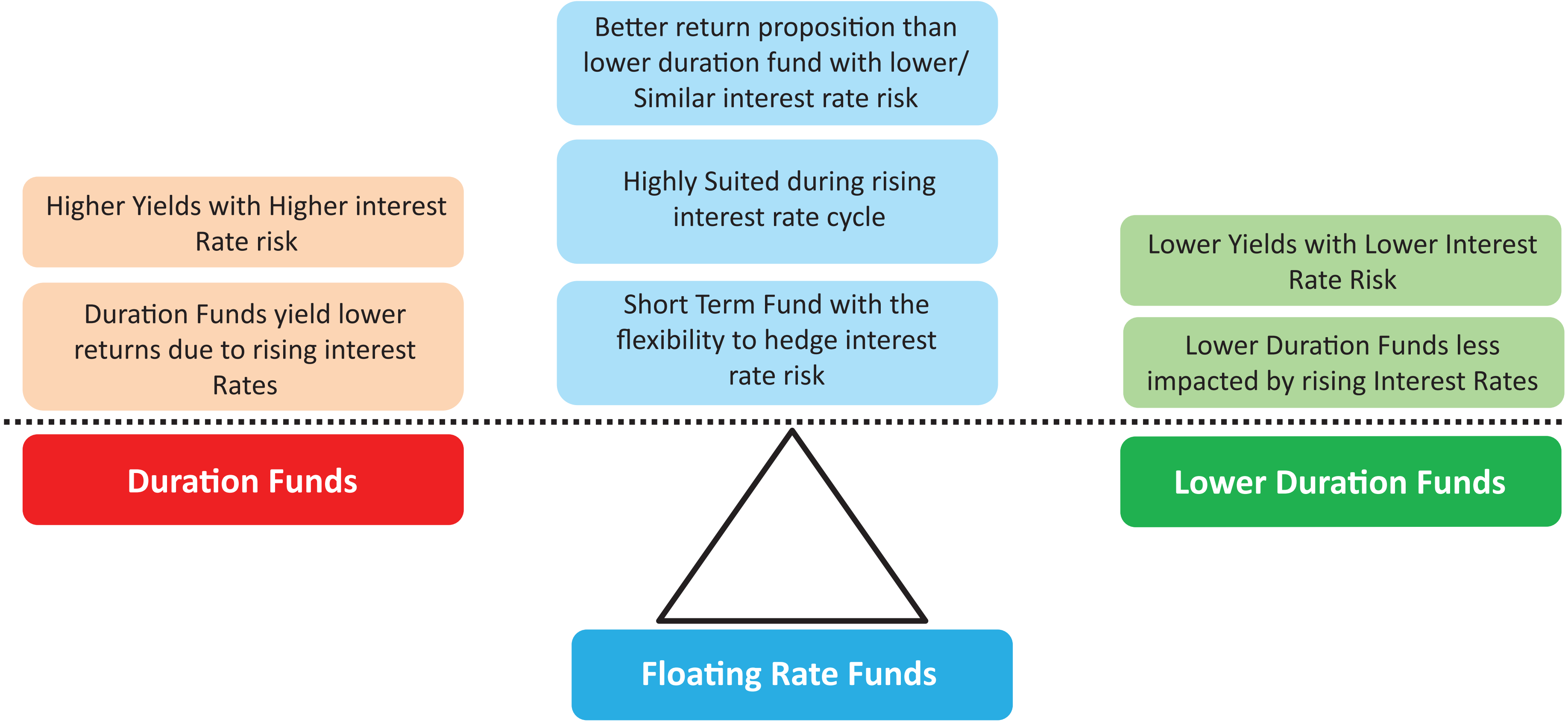
DIFFERENT INTEREST RATE SCENARIO REQUIRE DIFFERENT DURATION STRATEGIES



- Floating Rate Funds have the flexibility to invest across credit spectrum and does not have any Macaulay Duration limits
- Floating Rate Funds can take longer duration portfolio and hedge the interest rate risk which may lead to enhanced yields with lower net duration risk albeit an adverse interest rate movement may lead to mark to market loss to the Fund.

Accrual Funds tend to derive predominant returns from yields while Duration Funds generate predominant returns from capital appreciation from long duration exposure in a falling interest rate scenario. Accruals tend to be more suitable in a rising interest rate scenario due to their low component of duration returns and vice versa.

FLOATING RATE FUNDS AND RISING INTEREST RATE CYCLE



A Floating Rate Fund does not mean zero interest rate risk albeit it is lower than Long Duration Funds and depends upon the net duration of the Portfolio post interest rate risk hedge

ABOUT FLOATING RATE FUNDS

ABOUT FLOATING RATE FUND

TATA MUTUAL FUND

Stability of Returns

Floating Rate Funds provide relatively stable returns as compared to Duration Funds

Flexibility to invest across maturities & Credit Spectrum

Has the flexibility to invest across Credit and maturity spectrum.
No Macaulay Duration limit at Portfolio level

Suitable in a rising interest & Short Term Investments

As the coupon is predominantly aligned to shorter term rates, the Fund provides relatively lower interest rate risk

WHEN FLOATING RATE FUNDS WORK?

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Rising/Stable Yields

Rising Yields would lead to losses in high duration funds

Floating Rate Funds benefit from rising rate due to floating coupon rates adjusting for higher rates

Compression of Spread

Compression of Spread between Fixed yielding bonds and OIS leads to gains in the Fund

MTM gain if Fixed Yield fall or
Higher Accruals if OIS rates rise

Liquidity Cycle reversal

Rising overnight rates due to liquidity concerns provides higher yields on the floating rate receivables to the Scheme

Note: There are several other factors which impact the performance of Floating Rate Funds including the above mentioned. The above factors are for illustrative purpose and may or may not play out accordingly. OIS – Overnight Indexed Swap

HOW OVERNIGHT INDEXED SWAP IS USED FOR MAKING PORTFOLIO FLOATING RATE

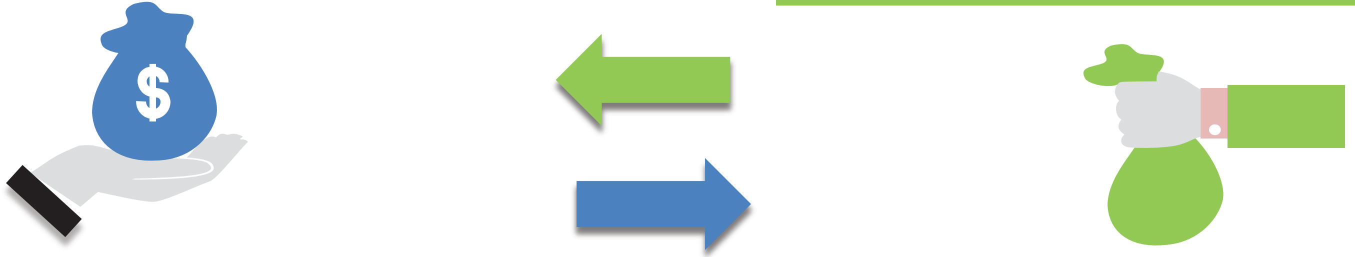
TATA MUTUAL FUND

Illustration:

The Fund has invested Rs. 100 crs in a 3-year 6% fixed coupon bond and enters in to an OIS Swap over the 3-Year period.
As per the agreement the Fund will pay fixed rate of 4.25% and receive overnight MIBOR rate compounded daily and reset every year.
For the 1st year the daily MIBOR compounded results in 3.75%, and accordingly, the payout will be as below:

Fixed coupon paid by Fund on Rs. 100 crs – 4.25%

Floating coupon received by Fund on Rs. 100 crs – 3.75%



Pay Fixed Rate (OIS Rate)

Assuming a rising yield Scenario

Receive Floating Rate (Overnight Rate)

Net flows to Fund (Assuming no change in Yields)

Payoff on the OIS Trade = 3.75 – 4.25 = -0.50 (Loss of Carry)

Gross Yield on Long Portfolio

6.00% (Coupon received from Fixed Rate Bond) + [**3.75%** (Floating Coupon received on OIS) – **4.25%** (Fixed Coupon paid on OIS) = **(-0.50%)** (Net Paid on OIS)] ► **5.50%** (Net Coupon received by the Fund)

The above is only to illustrate working of OIS / bond swaps in funds. The illustration does not take into account various aspects such as accruals, expenses, market factors, and change in Long Portfolio YTMs due to new inflows in the Fund etc. In a rising interest Rates scenario, the Fixed coupon paying bond would lead to capital loss resulting in lower net yield than illustrated above.

HOW OIS WORK IN A RISING AND FALLING INTEREST RATE SCENARIO

TATA MUTUAL FUND

Rise in Interest Rates by 50 bps and MIBOR Rate by 65 bps

6.00% (Coupon received from Fixed Rate Bond) + [**3.75%** (Floating Coupon received on OIS) − **4.25%** (Fixed Coupon paid on OIS) = **0.50%** (Net Paid on OIS)] + MTM Loss on Fixed Rate Bond **-2*0.50% = (1%)** + MTM Gain on OIS Trade **2*0.65% = 1.30%** ▶ **5.80%** (Net Returns for the Fund)

No Change

6.00% (Coupon received from Fixed Rate Bond) + [**3.75%** (Floating Coupon received on OIS) − **4.25%** (Fixed Coupon paid on OIS) = **0.50%** (Net Paid on OIS)] ▶ **5.50%** (Net Returns for the Fund)

Fall in Interest Rates by 50 bps and MIBOR Rate by 65 bps

6.00% (Coupon received from Fixed Rate Bond) + [**3.75%** (Floating Coupon received on OIS) − **4.25%** (Fixed Coupon paid on OIS) = **0.50%** (Net Paid on OIS)] + MTM Gain on Fixed Rate Bond **-2*-0.50% = 1%** + MTM Loss on OIS Trade **-2*0.65% = (1.30%)** ▶ **5.20%** (Net Returns for the Fund)

The above is only to illustrate working of OIS / bond swaps in funds. The illustration does not take into account various aspects such as accruals, expenses, market factors, etc. The change in Fixed Rate and OIS Floating Rate can be disproportionate which may lead to loss on OIS positions

CURRENT MARKET CONDITIONS AND OUTLOOK

CURRENT MARKET CONDITIONS AND INTEREST RATE OUTLOOK

TATA MUTUAL FUND

1

Rural Demand and Normal Monsoon to drive GDP growth in FY22

- Resilient Rural demand on record production and normal monsoon expectation
- Strengthening global economy likely to help external sector growth
- Domestic monetary and financial conditions remain highly accommodative and supportive of economic activity

GDP Growth Rate

FY21 – (-7.3%)
FY22E – + 9.5%

2

Upside risks on CPI inflation controlled with good monsoon

- Rising international commodity prices, fuel prices and increased logistical costs pose upside risks to inflation
- Normal monsoons, high buffer stock could keep food inflation in check
- Upside risk to inflation can increase on account of persistent commodity inflation and better than expected GDP Growth

Inflation (CPI)

FY21 – 6.16%
FY22E – 5.1%

3

RBI and the Government have been acting to lower bond yields

- GSAP 2.0 (equivalent of OMO calendar) is in expected lines and should alleviate supply pressures.
- Expect rates to remain range bound and no material movement expected

Liquidity and Yields

10 Y G-sec – 6.02%
Repo Rate – 4.0%
Reverse Repo – 3.35%

4

Do not anticipate RBI to hike the rates in FY22 due to 2nd wave impact

- RBI to continue to use all instruments at its command and work to revive and sustain growth on a durable basis
- We remain neutral on debt markets and expect accruals to be major driver for return generations for next few months

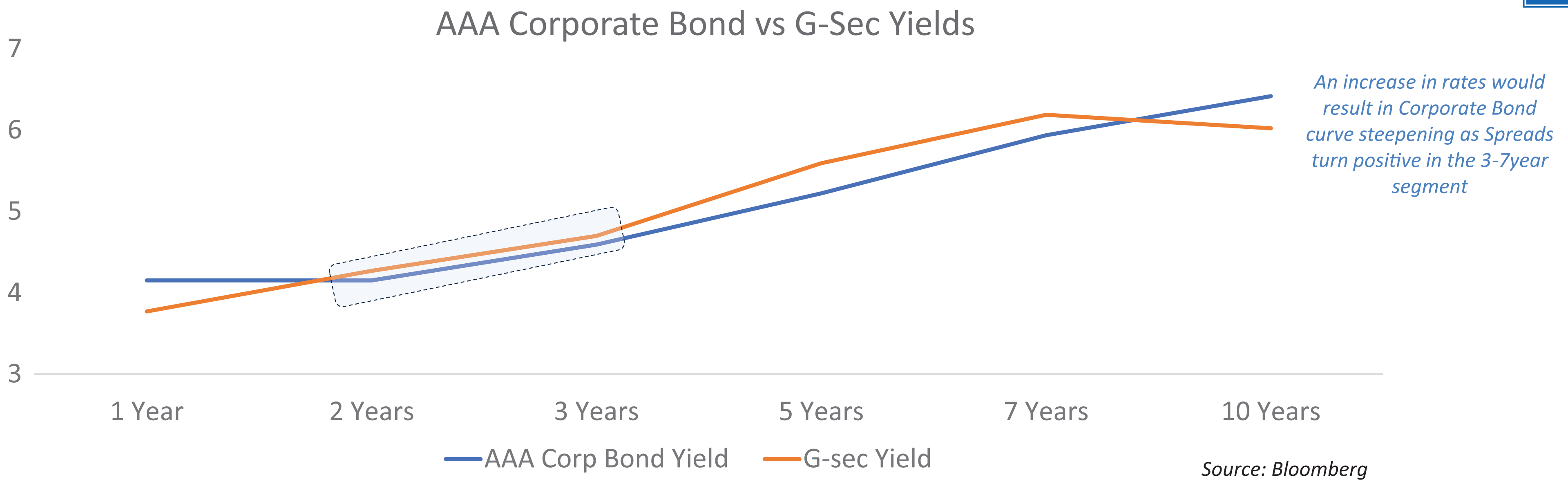
Outlook for Interest Rates

10 Y G-sec – 5.90% to 6.15%
Repo Rate – 4.0%
Reverse Repo – 3.35%

Source: RBI, Outlook based on Internal view

The statements contained herein may include statements of future expectations or forward-looking statements that are based on current views. There are risks and uncertainties that could cause actual results or events to differ materially from the above statements.

CURRENT MARKET CONDITIONS AND STRATEGY



Source: Bloomberg

- 2 – 3year Corporate Bond Segment looks attractive under current market conditions due to narrow spreads
- Spreads are expected to widen as the interest rates move upwards however, in a limited range as compared to 3-7 years duration segment where the yields are expected to move up more than 2-3year maturities
- Hike in rates would result in Corporate Bond curve steepening as Spreads turn positive in the 3-7year segment
- RBI increased its G-sec acquisition plan in the near term to support bond yields and short end of the yield curve

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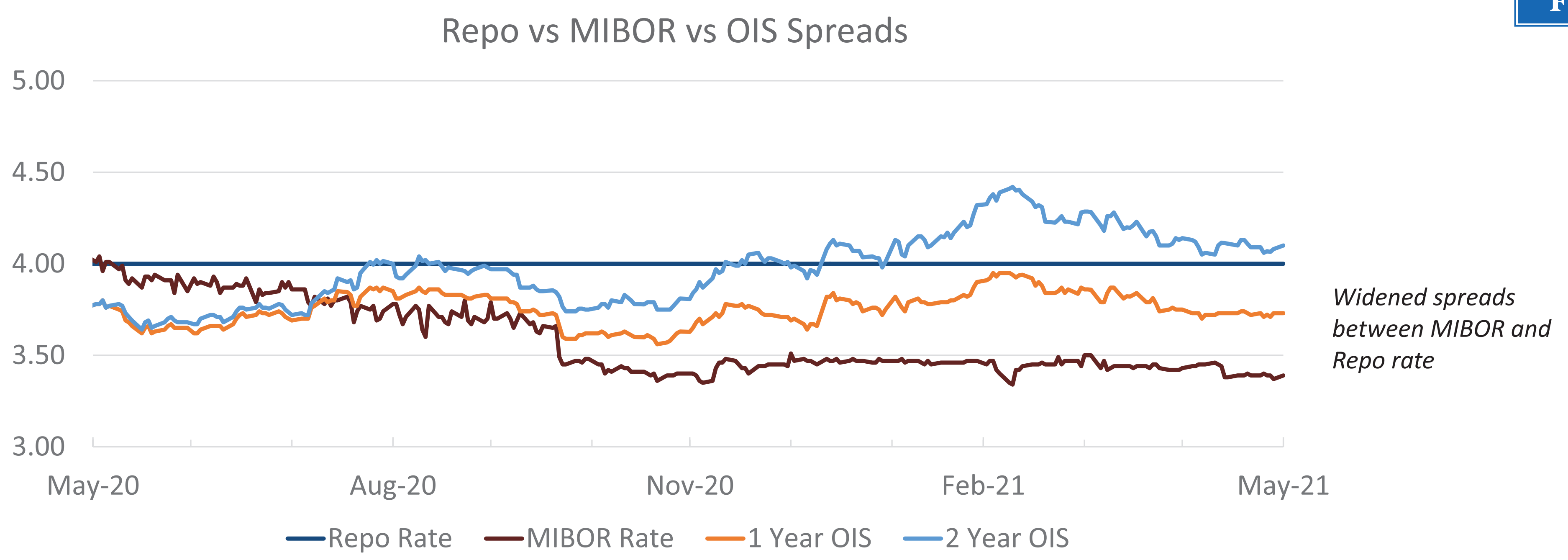
CURRENT MARKET CONDITIONS AND STRATEGY



Source: Bloomberg

- Overnight MIBOR rates tend to stay closer to or above repo rates as it is additional liquidity borrowing rate for Banks
- Spreads between OIS and Repo rate expected to narrow leading to accrual gains for OIS positions
- Expect the MPC to continue with accommodative stance for a longer period of time resulting in a flattening bias on the shorter end OIS up-to 2y/3 years

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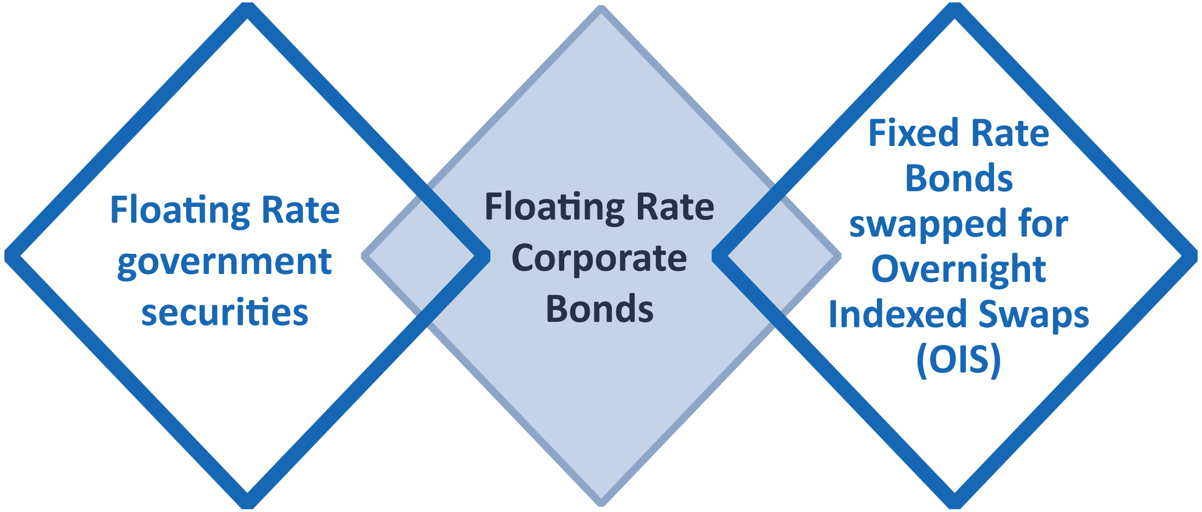
TATA FLOATING RATE FUND

TATA MUTUAL FUND



Type of Security	Min (%)	Max (%)	Risk Profile
Floating rate securities* (including fixed rate securities converted to floating rate exposures using swaps / derivatives)	65%	100%	Low to Medium
Fixed rate debt securities, securitized debt, money market instruments	0%	35%	Low to Medium
Units of REITs & InvITs	0%	10%	Medium to High

Please refer to Scheme Information document for details on asset allocation and investment strategy & Risk factors

CURRENT TARGET PORTFOLIO STRATEGY

Fund intends to focus towards providing investors competitive accrual yields with lower net duration risk.

Portfolio Orientation	Oriented towards maintaining bias towards Quality of portfolio
Duration	Aims to keep short term duration in the fixed rate portfolio under current market conditions
Positioning	Duration Flexibility to capitalize on market opportunity
Risk to View	Interest Rate view /Timings

*The above are broad characteristics of Tata Floating Rate Fund based on current market conditions. The portfolio of the Fund may or may not display the above characteristics across time periods.

WHO SHOULD INVEST?

TATA MUTUAL FUND

Investors seeking relatively stable portfolio yields in a rising interest rate scenario

Investors seeking diversification of Fixed Rate investments

Investors preferring shorter duration enhanced accruals with lower interest rate risk

FUND DETAILS

TATA MUTUAL FUND

Scheme Name	**TATA FLOATING RATE FUND**
NFO Date	**NFO OPENS:** 21st June 2021 • **NFO CLOSES:** 5th July 2021
Investment Objective	The objective of the scheme is to generate income through investment primarily in floating rate debt instruments, fixed rate debt instruments swapped for floating rate returns and money market instruments. However, there is no assurance or guarantee that the investment objective of the Scheme will be achieved. The scheme does not assure or guarantee any returns.
Type of Scheme	An open-ended debt scheme investing predominantly in floating rate instruments (including fixed rate instruments converted to floating rate exposures using swaps/ derivatives)
Fund Manager	Akhil Mittal
Benchmark	CRISIL Ultra Short Term Debt Index
Min. Investment Amount	Rs. 5,000/- and in multiple of Re.1/- thereafter **Additional Investment**: Rs 1,000/- and in multiple of Re 1/- thereafter.
Load Structure	**Entry Load (During NFO)**: N.A. **Exit Load**: NIL

TATA MUTUAL FUND

Thank you

Mutual Fund Investments are subject to market risks,
read all scheme related documents carefully