TATA MUTUAL FUND

NFO Opens: 22nd Nov., 2021
NFO Closes: 29th Nov., 2021

TATA CORPORATE BOND FUND

(An open-ended debt scheme predominantly investing in AA+ and above rated corporate bonds, with flexibility of any Macaulay Duration and relatively high interest rate risk and moderate credit risk)

Aims to Pick the Best in Class

Potential Risk Class			
Credit Risk → / Interest Rate Risk ↓	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Relatively Low (Class I)			
Moderate (Class II)			
Relatively High (Class III)		B-III	

CORPORATE BOND FUNDS

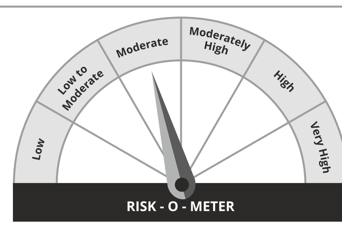
Corporate Bond Funds are fixed income funds which primarily invest in highly rated corporate bonds

- The funds invest in a minimum of 80% AA+ and higher quality papers
- Corporate Bonds generally accrue higher returns compared to Government Bonds but with Credit Risk. The credit risk depends on investment patterns with high rated companies having lower default rates
- The category has no duration restriction. Hence, the funds have the flexibility to change portfolio construct based on market conditions. An individual fund's duration may be capped by Potential Risk Class (PRC)
- Investing for longer than 3 years provides indexation benefits

This product is suitable for investors who are seeking*:

- Regular income for medium term
- Predominant investment in corporate debt 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 risks, read all scheme related documents carefully.

CURRENT FIXED INCOME LANDSCAPE

CREDIT ENVIRONMENT

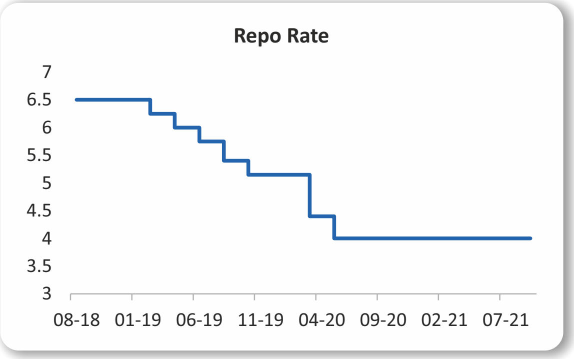
Higher upgrades compared to downgrades	The Credit Ratio(Companies Upgrades to Companies Downgraded) has seen the highest ever jump and current stands at 2.06
Lower downgrade rates for AAA and AA issuers	More than 97% of AAA issuers have successfully maintained ratings over FY2010 -FY2021* More than 94% of AA issuers have either upgrades to AAA or maintained ratings over FY2010-FY2021*
Majority of issuers in AAA & AA able to service debt	More than 98% of AAA & AA issuers have successfully serviced debt and avoided defaults over FY2011-FY2021*

*Sources: Crisil, ICRA & CARE. *Lower of the 3 rating agencies*

INTEREST RATE ENVIRONMENT

Headline policy rates were cut significantly in May-2020 to provide liquidity to banks to boost lending and encourage economic growth during the pandemic. There haven't been any rate hikes since then

Factors in favour of low rates	Factors in favour of higher rates
Indian economy is still in recovery stage	General trend of rate hikes globally
Downward pressure on food related inflation	Upward Pressure on fuel and energy related inflation



Source: Bloomberg

Current Scenario:

- Tolerance for higher inflation in India till we get durable growth
- Excess liquidity expected to be withdrawn, still leaving some surplus liquidity to support growth and weak credit growth

Expected Rate Action: In stages, excess liquidity to be withdrawn to hike the reverse repo rate. Conditions are being created to bring the corridor to the normal difference. The gap between repo and reverse repo is currently at 65 bps with repo at 4% and reverse repo at 3.35%. The plan is to bring reverse repo rate closer to repo rate over next 2-3 policy meetings.

Yield Curve: Currently, the yield curve is steep. Spreads between different maturity buckets (1 Year, 3 Year, 5 Year) are high, currently ranging between 50 to 80 bps

- Accrual securities are expected to stay intact in a rate hike environment
- The 3 to 5 year segment is the sweet spot as it seems to be well protected. MTM losses can be expected. But the impact of rise in yields would be balanced by the roll down effect and would be taken care of by accrual income.

TATA CORPORATE BOND FUND- TARGETING THE SWEET SPOT

Steepness of yield curve in 2-3 Year segment → *Higher accruals*

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Lower downgrades and defaults in AAA/AA space → *Higher Safety*

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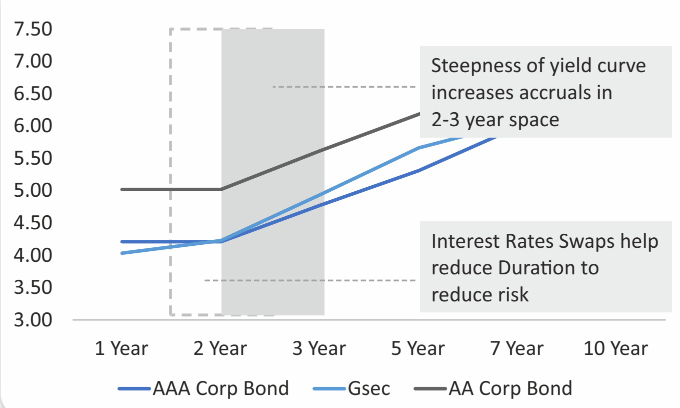
Interest Rate swaps to reduce Duration → *Reduced Risk*

Yield Spreads



Source: Bloomberg

IRS IMPACT

- IRS would help immunize the portfolio.
- At current rates, having IRS would impact the yield by 30 bps but also bring down the avg maturity by 0.5 years at 2.55 yrs. The current gap between the fund paying OIS rate and receiving Overnight rate is high

Impact of a Rate Hike

Illustrative Portfolios	Portfolio without IRS	Portfolio with IRS
Macaulay Duration	3.00	2.50
Yield (Assuming same yields)	5.65	5.32
Rate Hike of 0.50%		
Impact on Corporate Bonds	(-) 0.50 X 3.00 X 100%= 1.50	(-) 0.50 X 3.00 X 80% = 1.20
Impact on IRS	-	0.50 X 20% = 0.10
Portfolio Return post Impact	**4.15**	**4.22**

Portfolio with IRS will be better protected in case of abrupt rate hikes

*Illustrative Portfolios, the fund may or may not be managed in a similar way

FUND DETAILS

Scheme Name	**TATA CORPORATE BOND FUND**
NFO Dates	**NFO Opens:** 22nd Nov 2021 | **NFO Closes:** 29th Nov 2021
Investment Objective	The investment objective of the scheme is to generate returns over short to medium term by investing predominantly in corporate debt instruments. However, there is no guarantee or assurance that the investment objective of the scheme will be achieved. The scheme doesn't assure or guarantee any returns.
Type of Scheme	An open-ended debt scheme predominantly investing in AA+ and above rated corporate bonds, with flexibility of any Macaulay Duration and relatively high interest rate risk and moderate credit risk
Fund Manager	Abhishek Sonthalia
Benchmark	CRISIL Corporate Bond Composite Index
Min. Investment Amount	**Minimum subscription amount:** Rs 5,000/- and in multiple of Re.1/- thereafter. **Additional Purchase:** Rs.1000/-& in multiples of Re.1/-thereafter.
Load Structure	Nil