

TATA

GILT SECURITIES FUND

(An Open-ended Debt Scheme investing predominantly in Government Securities across maturity)



Date: 10.05.2019

Dear Investor,

Thank you for investing with Tata Gilt Securities Fund.

Over past few months Securities & Exchange Board of India (SEBI) has issued many guidelines in the interest of investors of mutual funds. Implementation of some of the guidelines issued by SEBI requires amendment to Scheme Information Document. This includes:

1. Creation of segregated portfolio of debt and money market instruments by mutual fund schemes.
2. Hedging of portfolio or part of the portfolio (including one or more securities) by using Interest Rate Futures (IRFs)

Creation of Segregated Portfolio in case of credit event

SEBI has allowed Segregated Portfolio of Debt & Money Market Instruments by mutual fund schemes in case of credit event. This will help ring fence an impaired asset and will restrict cascading effect of illiquidity on the rest of the portfolio. Enabling clause in the SID for Segregate Portfolio is in the interest of investor as this will ensure fair treatment to all unitholders.

Use of IRF for Imperfect Hedging

In order to enable mutual funds to hedge the debt portfolio from interest rate volatility, SEBI has allowed mutual funds to hedge the portfolio or part of the portfolio (including one or more securities) by using Interest Rate Futures (IRFs). Interest Rate Future is a future contract with an interest bearing instrument as the underlying asset. SEBI has also allowed Imperfect hedging of the portfolio or part of the portfolio using IRFs, which is a great option to have in debt funds to enable wider option for fund managers to capture market opportunities and/or reduce risk in the portfolios. This will be beneficial in volatile or sideways markets.

We wish to inform you that Trustees of Tata Mutual Fund, based on recommendation of Tata Asset Management Limited, have approved the amendment to Scheme Information Document (SID) & Key Information Document (KIM) of Tata Gilt Securities Fund to incorporate the provision of:

1. creation of segregated portfolio (refer Annexure I for details)
2. provision of hedging using interest rate futures (refer Annexure II for details).

The above changes will be effective from 15.06.2019.

If you are not in favour of the above mentioned scheme changes, you may choose to exit from Tata Gilt Securities Fund by submitting request for redemption or switch to any of our existing schemes at the prevailing NAV without payment of exit load from **15.05.2019 to 14.06.2019** (upto 3.00 p.m) at any of our Branches or Cams Official Points of Acceptance. Please provide us the CKYC acknowledgement / KYC form and the documents along with the switch request.

Please note that submission of the PAN of the unitholders (Parent/ Guardian in case unitholder is minor) is mandatory to process redemption except in following cases:

- 1) Where investment is by way of Micro Systematic Investment Plan (Micro SIP) and aggregate investment amount is not more than Rs.50,000/- in any financial year.
- 2) Where Unitholder (Parent/ Guardian of unitholder who is minor) is a resident of Sikkim.

Unitholders may note that an exit from the scheme will have capital gain tax implication and is advised to consult with his or her own tax advisors with respect to the specific tax implications arising out of exit from the scheme.

If you wish to change / update your Bank Mandate before redemption, you may do so by submitting a cancelled original cheque leaf of the new bank account as well as the bank account currently registered along with the redemption / switch request. The payment will be made within 10 business days from the date of redemption. All requests received after 3.00 pm on **14.06.2019** will be subject to exit load, as applicable.

Unitholders may note that no action is required in case they are in agreement with the aforesaid changes, which shall be deemed as acceptance of the said change. **The offer to exit from the Scheme is optional at the discretion of the Unit holders and not compulsory.** We would like investors to stay invested in the scheme.

The unit holders who have pledged or encumbered their units will not have the option to exit unless they procure an effective release of their pledges/ encumbrances prior to the redemption / switch-out requests.

Unclaimed redemption and dividend relating to scheme Tata Gilt Securities Fund as on 30.04.2019 is as follows:

Unclaimed Amounts			No. of Investors		
Redemption (Rs)	Dividend (Rs.)	Total (Rs.)	Redemption (No.)	Dividend (No.)	Total (No.)
494,490.22	241,719.49	736,209.71	6	83	89

This amount pertains to all unitholders of the scheme. To know the amount pertaining to specific individual investor, please visit <http://www.tatamutualfund.com/investor/services/unclaimed-redemption-dividend>

***Cut off timing for NAV applicability for redemption and switch out:**

In respect of valid redemption / switch out application accepted at a designated collection centre upto 3 p.m. on a business day by the Mutual Fund, the closing NAV of the day of receipt of application shall be applicable and in respect of application received after 3 p.m., closing NAV of the next business day will be applicable.

We thank you for your kind co-operation and look forward to your continuous patronage.

Thanking You,

Yours faithfully

For Tata Asset Management Ltd.

Sd/-

Kashmira M Kalwachwala
Head - Investor Services.

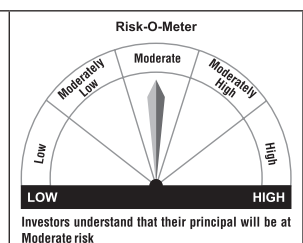
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Product Label: Tata Gilt Securities Fund

This product is suitable for investors who are seeking*:

- Long Term Capital Appreciation & Regular Income.
- Investment predominantly in Government Securities.

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



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

Annexure I**Creation of Segregated Portfolio**

Creation of segregated portfolio shall be subject to guidelines specified by SEBI from time to time and includes the following:

- 1) Segregated portfolio may be created, in case of a credit event at issuer level i.e. downgrade in credit rating by a SEBI registered Credit Rating Agency (CRA), as under:
 - a) Downgrade of a debt or money market instrument to 'below investment grade', or
 - b) Subsequent downgrades of the said instruments from 'below investment grade', or
 - c) Similar such downgrades of a loan rating
- 2) In case of difference in rating by multiple CRAs, the most conservative rating shall be considered. Creation of segregated portfolio shall be based on issuer level credit events as mentioned above and implemented at the ISIN level.
- 3) Creation of segregated portfolio is optional and is at the discretion of the Tata Asset Management Ltd (AMC).

Process for Creation of Segregated Portfolio

- 1) On the date of credit event, AMC should decide on creation of segregated portfolio. Once AMC decides to segregate portfolio, it should :
 - a) seek approval of trustees prior to creation of the segregated portfolio.
 - b) immediately issue a press release disclosing its intention to segregate such debt and money market instrument and its impact on the investors. Tata Mutual Fund will also disclose that the segregation shall be subject to Trustee approval. Additionally, the said press release will be prominently disclosed on the website of the AMC.
 - c) ensure that till the time the trustee approval is received, which in no case shall exceed 1 business day from the day of credit event, the subscription and redemption in the scheme will be suspended for processing with respect to creation of units and payment on redemptions.
- 2) Once Trustee approval is received by the AMC:
 - a) Segregated portfolio will be effective from the day of credit event
 - b) AMC shall issue a press release immediately with all relevant information pertaining to the segregated portfolio. The said information will also be submitted to SEBI.
 - c) An e-mail or SMS will be sent to all unit holders of the concerned scheme.
 - d) The NAV of both segregated and main portfolios will be disclosed from the day of the credit event.
 - e) All existing investors in the scheme as on the day of the credit event will be allotted equal number of units in the segregated portfolio as held in the main portfolio.
 - f) No redemption and subscription will be allowed in the segregated portfolio. However, upon recovery of any money from segregated portfolio, it will be immediately distributed to the investors in proportion to their holding in the segregated portfolio.
 - g) AMC should enable listing of units of segregated portfolio on the recognized stock exchange within 10 working days of creation of segregated portfolio and also enable transfer of such units on receipt of transfer requests
 - h) Investors redeeming their units will get redemption proceeds based on the NAV of main portfolio and will continue to hold the units of segregated portfolio.
- 3) If the trustees do not approve the proposal to segregate portfolio, AMC will issue a press release immediately informing investors of the same.
- 4) In case trustees do not approve the proposal of segregated portfolio, subscription and redemption applications will be processed based on the NAV of total portfolio.

Processing of Subscription and Redemption Proceeds

All subscription and redemption requests for which NAV of the day of credit event or subsequent day is applicable will be processed as under:

- i. Upon trustees' approval to create a segregated portfolio -
 - Investors redeeming their units will get redemption proceeds based on the NAV of main portfolio and will continue to hold the units of segregated portfolio.
 - Investors subscribing to the scheme will be allotted units only in the main portfolio based on its NAV.
- ii. In case trustees do not approve the proposal of segregated portfolio, subscription and redemption applications will be processed based on the NAV of total portfolio.

Disclosure

AMC shall make necessary disclosures as mandated by SEBI, in statement of account, monthly / half yearly portfolio statements, Key Information Memorandum (KIM), SID, Scheme Advertisements, Scheme Performance data, AMC Website and at other places as may be specified.

The information regarding number of segregated portfolios created in a scheme shall appear prominently under the name of the scheme at all relevant places such as SID, KIM-cum-Application Form, advertisement, AMC and AMFI websites, etc.

Monitoring by Trustees

Trustees will monitor the compliance of the SEBI Circular in respect of creation of segregated portfolio and disclosure in this respect shall be made in Half-Yearly Trustee reports filed with SEBI.

In order to avoid mis-use of segregated portfolio, Trustees will put in place a mechanism to negatively impact the performance incentives of Fund Managers, Chief Investment Officers (CIOs) etc. involved in the investment process of securities under the segregated portfolio, mirroring the existing mechanism for performance incentives of Tata Asset Management Ltd., including claw back of such amount to the segregated portfolio of the scheme.

TER for the Segregated Portfolio

- 1) AMC will not charge investment and advisory fees on the segregated portfolio. However, TER (excluding the investment and advisory fees) can be charged, on a pro-rata basis only upon recovery of the investments in segregated portfolio.
- 2) The TER so levied shall not exceed the simple average of such expenses (excluding the investment and advisory fees) charged on daily basis on the main portfolio (in % terms) during the period for which the segregated portfolio was in existence. In addition to the TER

mentioned above, the legal charges related to recovery of the investments of the segregated portfolio may be charged to the segregated portfolio as mentioned below.

- 3) The legal charges related to recovery of the investments of the segregated portfolio may be charged to the segregated portfolio in proportion to the amount of recovery. However, the same shall be within the maximum TER limit as applicable to the main portfolio. The legal charges in excess of the TER limits, if any, shall be borne by the AMC.
- 4) The costs related to segregated portfolio shall in no case be charged to the main portfolio.

Explanations:

- 1) The term 'segregated portfolio' means a portfolio, comprising of debt or money market instrument affected by a credit event, that has been segregated in a mutual fund scheme.
- 2) The term 'main portfolio' means the scheme portfolio excluding the segregated portfolio.
- 3) The term 'total portfolio' means the scheme portfolio including the securities affected by the credit event.

Risks associated with segregated portfolio

- 1) Investor holding units of segregated portfolio may not able to liquidate their holding till the time recovery of money from the issuer.
- 2) Security comprises of segregated portfolio may not realise any value.
- 3) Listing of units of segregated portfolio in recognised stock exchange does not necessarily guarantee their liquidity. There may not be active trading of units in the stock market. Further trading price of units on the stock market may be significantly lower than the prevailing NAV.

Illustration of Segregated Portfolio

Portfolio Date	31-Mar-19
Downgrade Event Date	31-Mar-19
Downgrade Security	7.65% C Ltd from AA+ to B
Valuation Marked Down	25%

Mr. X is holding 1000 Units of the Scheme, amounting to (1000*15.0573) Rs.15057.30

Portfolio Before Downgrade Event

Security	Rating	Type of the Security	Qty	Price Per Unit	Market Value (Rs. in Lacs)	% of Net Assets
7.80% A FINANCE LTD	CRISIL AAA	NCD	3200000	102.812	3289.98	21.850
7.70 % B LTD	CRISIL AAA	NCD	3230000	98.5139	3182.00	21.133
7.65 % C Ltd	CRISIL B*	NCD	3200000	73.843	2362.97	15.693
D Ltd (15/May/2019)	ICRA A1+	CP	3200000	98.3641	3147.65	20.904
7.65 % E LTD	CRISIL AA	NCD	3000000	98.6757	2960.27	19.660
Cash / Cash Equivalents					114.47	0.760
Net Assets					15057.34	
Unit Capital (no of units)					1000.00	
NAV (Rs.)					15.0573	

* Marked down by 25% on the date of credit event. Before Marked down the security was valued at Rs.98.4570 per unit
On the date of credit event i.e. on 31st March 2019, NCD of C Ltd (7.65%) will be segregated as separate portfolio.

Main Portfolio as on 31st March 2019

Security	Rating	Type of the Security	Qty	Price Per Unit	Market Value (Rs. in Lacs)	% of Net Assets
7.80% A FINANCE LTD	CRISIL AAA	NCD	3200000	102.812	3289.98	21.850
7.70 % B LTD	CRISIL AAA	NCD	3230000	98.5139	3182.00	21.133
D Ltd (15/May/2019)	ICRA A1+	CP	3200000	98.3641	3147.65	20.904
7.65 %E LTD	CRISIL AA	NCD	3000000	98.6757	2960.27	19.660
Cash / Cash Equivalents					114.47	0.760
Net Assets					12694.37	
Unit Capital (no of units)					1000.00	
NAV (Rs.)					12.6944	

Segregated Portfolio as on 31st March 2019

Security	Rating	Type of the Security	Qty	Price Per Unit	Market Value (Rs. in Lacs)	% of Net Assets
7.65 % C Ltd	CRISIL B*	NCD	3200000	73.843	2362.97	15.693
Unit Capital (no of units)					1000.00	
NAV (Rs.)					2.3630	

Value of Holding of Mr. X after creation of Segregated Portfolio

	Segregated Portfolio	Main Portfolio	Total Value
No of units	1000	1000	
NAV (Rs.)	2.3630	12.6944	
Total value (Rs.)	2362.97	12694.33	15057.30

Annexure II**Hedging of portfolio using Interest Rate Futures(IRF)**

In order to reduce interest rate risk, The scheme may hedge the portfolio or part of the portfolio (including one or more securities) on weighted average modified duration basis by using Interest Rate Futures (IRFs). The maximum extent of short position that may be taken in IRFs to hedge interest rate risk of the portfolio or part of the portfolio, is as per the formula given below:

$$\frac{\text{(Portfolio Modified duration*Market Value of Portfolio)}}{\text{(Futures Modified Duration*Future Price/PAR)}}$$

In case IRF contract has different underlying security(s) than the existing position being hedged, it would result in imperfect hedging. Imperfect hedging using IRFs is exempted from the gross exposure, up to maximum of 20% of the net assets of the scheme, subject to following conditions:

- 1) Exposure to IRFs is created only for hedging the interest rate risk based on the weighted average modified duration of the bond portfolio or part of the portfolio.
- 2) Imperfect hedging is permitted without it being considered under the gross exposure limits, if and only if, the correlation between the portfolio or part of the portfolio (excluding the hedged portions, if any) and the IRF is at least 0.9 at the time of initiation of hedge. In case of any subsequent deviation from the correlation criteria, the same may be rebalanced within 5 working days and if not rebalanced within the timeline, the derivative positions created for hedging shall be considered under the gross exposure. The correlation should be calculated for a period of last 90 days.
- 3) The portion of imperfect hedging in excess of 20% of the net assets of the scheme should be considered as creating exposure and shall be included in the computation of cumulative gross exposure through equity, debt and derivative positions which should not exceed 100% of the net assets of the scheme.
- 4) At no point of time, the net modified duration of part of the portfolio being hedged should be negative.

Illustration of imperfect hedging

DP = Duration of the portfolio (measure of the interest rate sensitivity of the portfolio) = 7

DF = Duration of the underlying security of the futures contract = 6 (> 0.9 correlations with the portfolio)

P = Portfolio's market value = Rs. 200 crores

Y = underlying interest rate or portfolio yield = 8.00%

Subsequently, if it is anticipated that yields may rise in the future, the fund manager can hedge the underlying duration risk in the IRF by selling the futures contract.

Maximum Imperfect hedge allowed = 20% of the Net assets of the Scheme

Assuming interest rates rise by 50 bps point, post the imperfect hedging

Change in the market value of the portfolio = (P*DP*Change in interest rate) = Rs. 200 crores * 7 * (0.50%) = (Rs. 7.00 crores)

Duration risk managed due to hedge in IRF = % of portfolio hedged * P * DF * Change in the interest rates = 20% * 200 * 6 * (0.50%) = Rs. 1.20 crores

Thus net change in the market value of the portfolio = Rs. 200 crores – Rs 7.00 crores + Rs 1.20 crores = Rs 194.20 crores

As can be seen from the above, in case yields move higher by 50 bps, there is a loss in the portfolio for Rs 7 crores, but due to the active hedging, IRFs position helps in reducing the loss in the portfolio by Rs. 1.20 crores.

Risks associated with Imperfect Hedging using Interest Rate Futures (IRF)

Liquidity/execution risk – IRF are relatively new instruments traded on the exchanges and don't have as much liquidity as the OTC market in the underlying bond. This could expose the hedge to liquidity (execution and wider bid-offer spread) risk and associated impact cost.

Spread risk – The IRF is based on government securities and treasury bills. Imperfect hedging can be applied on portfolios comprised of corporate bonds as well. Corporate bond yield theoretically comprises of the risk free rate and a credit spread. IRF would hedge out only the risk free rate. Any compression/expansion of credit spread of the underlying portfolio would not be hedged by the IRF.

Yield curve slope risk – The IRF hedge is done on a modified duration basis. This means that the maturity of the underlying instrument and the maturity of the IRF could be different. The hedge ratio is arrived at using the prescribed formula. This hedges the risk arising from a parallel shift in the yield curve. Any change in the slope of the yield curve (flattening/steepening) remains unhedged as residual risk.

Unwinding risk – An unexpected change in market conditions may require unwinding the derivative positions at disadvantageous prices during periods of heightened volatility e.g. if the yields slide lower due to a surprise RBI rate cut, participants with short Interest Rate Futures positions would seek to cut their losses and exit, leading to an increase in the price of the IRF, and negative price impact on the hedged portfolio there from.

Correlation risk – As per the extant regulation, the IRF has to have a 0.90 correlation coefficient with the underlying bond/portfolio, for the past 90 days, to be considered for imperfect hedging. If the correlation deteriorates going forward, the hedge may have to be rebalanced with attendant impact cost.