

TRUST Debt PMS Long Term Dynamic Strategy



June 2020

Investment Strategy

- A combination of accrual, duration, credit strategies are employed depending on the prevailing market conditions
- Market variables are continuously monitored to identify mispriced opportunities which aid alpha generation
- Investments are made into instruments having adequate liquidity and limited risk

Total Return

Accrual

Capital Gain

Accrual/Spread Compression

- High coupon bonds generate attractive carry income & act as a yield kicker
- Current spreads remain very high & mean reversion could fetch capital gains

Duration

- Tactical duration exposure could significantly improve portfolio alpha.
- Benign interest rate outlook amid low inflation & attractive real rates.
- Aim would be capture at least 50% of rally on yields on an annual basis.

Indicative Portfolio Construct

GOI/SDLs:	40%
Corporate Bonds:	35%
Tier II Bank Bonds:	25%
YTM:	9.14%
Weighted Average Duration:	4.03

Product Snapshot

Fixed Fees: 0.50% per annum

Redemption: T + 10

Taxation: As per the Income Tax Act 1961
(Assumed tax rate for return calculation: 35%)

Minimum Investment Size: INR 5 crores

Indicative Portfolio Construct & Return Profile

- The portfolio is positioned suitably in order to navigate through market risks
- Investments are made into instruments having adequate liquidity and limited risk
- Potential return of 11.00% for GOI/SDLs is assuming rallies in bonds are captured effectively through interest rate calls
- With spread compression or drop in yields for corporate bonds, this strategy could potentially deliver tax & expense adjusted returns of ~7%

Issuer	Weight	Credit Rating	Maturity/Call	Duration	Indicative Yield/Return
GOI/SDLs	40%	Sovereign	2029 & above	6.40	11.00%#
Shriram Transport Finance	20%	AA+	2024	3.06	12.00%
Muthoot Finance	15%	AA	2021	0.93	10.00%
South Indian Bank	15%	A+	2024	2.88	11.00%
Karur Vysya Bank	10%	A	2024	2.93	11.00%
Pre Tax Pre Fee Return	-	-	-	-	11.05%
Post Tax Post Fee Return	-	-	-	-	6.86%*

* Assumed fees & rate of tax: 0.50% & max marginal rate of 35%

Performance comparison

Performance comparison with Dynamic Bond Fund and Medium to Long Duration Fund

Long Term Dynamic Strategy has outperformed Short duration and Medium Duration Mutual Fund Debt categories on investment horizon of 1 year and above.

Annualized returns as on 31st May 2020

Scheme / Sector Name	1 Month	3 Months	6 Months	1 Year	Since Inception (5th April 2019)
Dynamic Bond Future Category Average	18.26%	9.79%	9.48%	8.38%	8.77%
Medium Duration Fund Category Average	22.05%	-5.51%	1.09%	1.86%	2.39%
Medium to long Duration Fund Category Average	25.80%	13.10%	10.76%	10.21%	10.68%
Short Duration Fund Category Average	18.13%	4.60%	5.86%	4.66%	5.05%
Debt PMS - Long Term Dynamic Strategy	15.02%	9.28%	9.55%	12.77%	14.53%

Source- ICRA MFI explorer, Past Performance is not indicative of future performance

Advantages:

- The Debt PMS strategy does not have exit loads unlike most debt mutual fund schemes.
- Unlike debt mutual funds which have a large number of securities with sectoral and security level limits, the Debt PMS offers flexibility to take concentrated positions in high conviction ideas
- Investors can create customized portfolios in the case of a PMS as opposed to blind pool investing in the case of mutual funds.

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