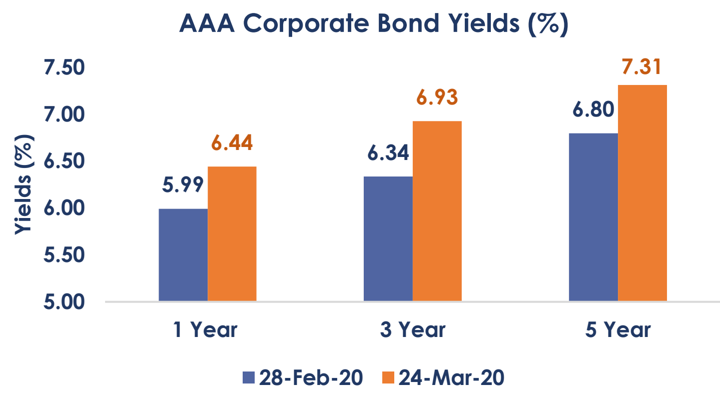
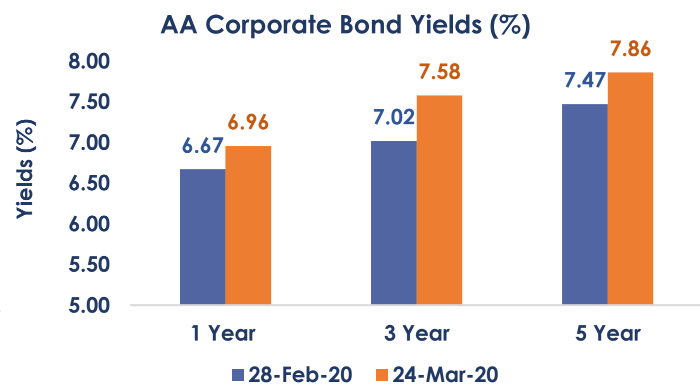
April 15, 2020

Opportunity to invest in Accrual Funds

Fallout of Covid-19 pandemic on debt markets

The fall-out has been severe for the debt markets as yields rose sharply on back of risk off behavior by FPIs leading to record outflows and seasonality of MF (out)flows led to sharp increase in short term rates

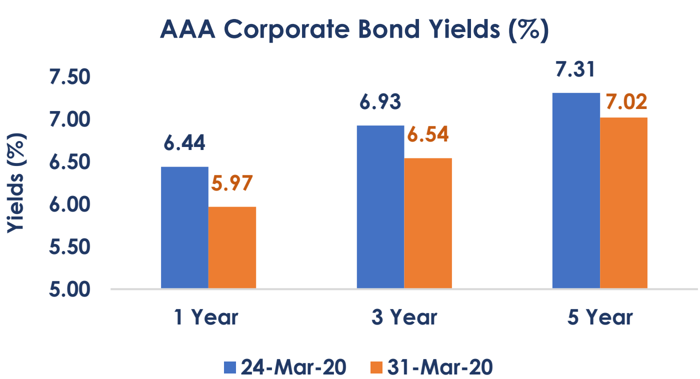


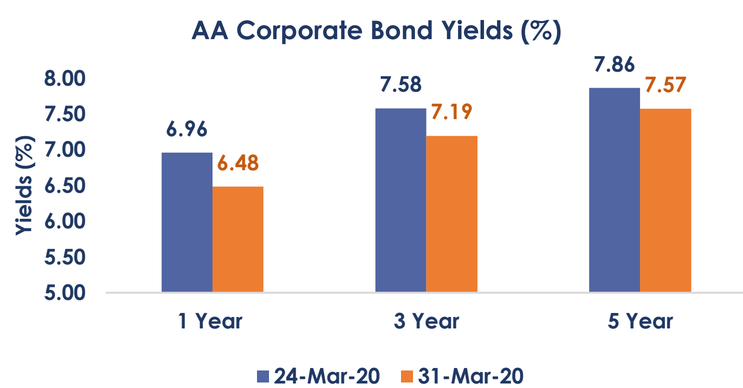


Source: Bloomberg

RBI & Government come to the rescue

While the Government initiated the fiscal stimulus by providing a safety net for those hit the hardest by the lockdown, the RBI announced a slew of measures to support the market by lowering key policy rates and infusing liquidity into the system. This led to a sharp reversal (drop) in corporate bond yields.





Source: Bloomberg

KEY TAKE AWAY

- ✓ **A sharp rise in yields (during crisis) is generally followed by measures from the central bank to support the markets, leading to a sharp reversal (drop) in yields**
- ✓ **Investors who would have stayed invested during turbulent times were able to ride over the volatility**

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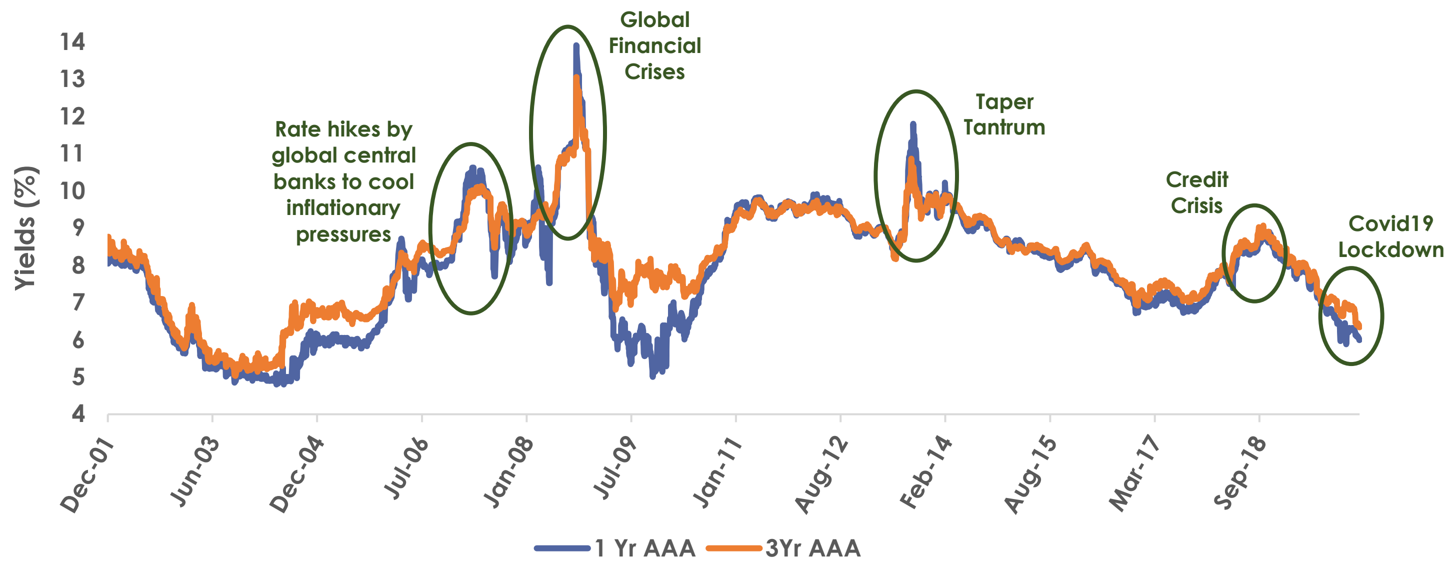
Movement in AAA corporate bond yields since 2001

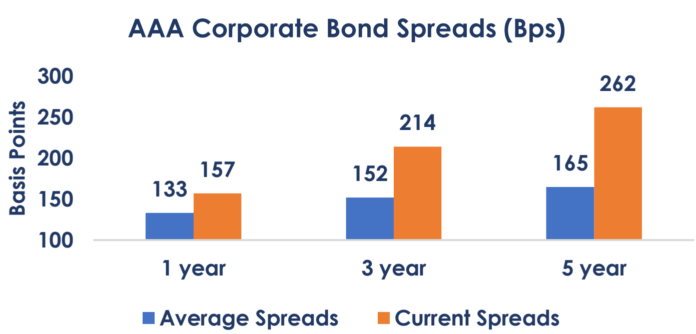
Historically sharp rise in yields (during crisis) have typically been followed by a significant drop in yields within a short period of time as central banks intervene to soothe markets

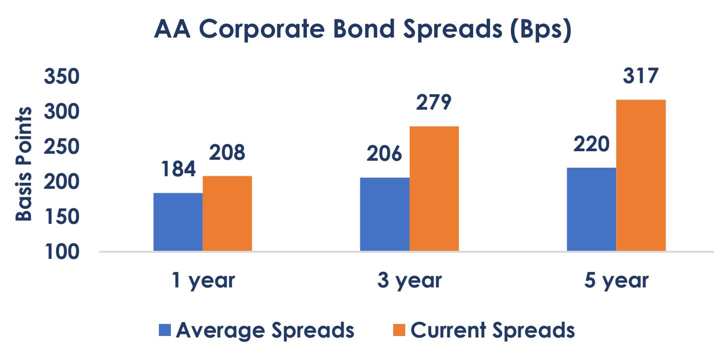


Data from December 05, 2001 till March 31, 2020 Source: Bloomberg.

Should investors allocate fresh funds to accrual-oriented schemes?

Despite spreads coming down sharply after the Government and RBI intervened in the markets, current levels of yield remain elevated levels.





Current spreads are as on March 31, 2020. Average spreads are from January 1, 2015 to March 31, 2020. Source: Bloomberg

KEY
TAKE AWAY

- ✓ **Spreads are at elevated levels which are expected to come down to their long term average when markets approach normalcy**
- ✓ **This compression in spreads is likely to benefit accrual oriented funds**
- ✓ **Focus on high quality accrual funds (predominantly AAA portfolios) to capture this opportunity**

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Opportunity to invest in Accrual Funds

UTI Mutual Fund

Fund Positioning of our accrual oriented funds

01

UTI Money Market Fund

- Positioned to capture opportunity with a duration of up to 12 months
- Maintains a high-quality portfolio (100% portfolio in A1+ and equivalent rated) of money market instruments.

AUM Rs. 4,575 crs.

YTM 6.07%

Avg. Maturity 164 Days

Mod. Duration 0.44 Yrs.

02

UTI Floater Fund

- Positioned to capture yield movement at the shorter end of the curve
- Invests in high quality fixed rated instruments and Interest Rate Swaps like OIS (Overnight Index Swap), G-Sec Floater, FRBs (Floating Rate Bonds)

AUM Rs. 1,112 Crs

YTM 6.50%

Avg. Maturity 1.72 Yrs

Mod. Duration 1.46 Yrs.

03

UTI Corporate Bond Fund

- Positioned to capture yield movement in 1 to 3 year segment
- Invests predominantly in AAA rated corporate bonds and equivalent instruments with an aim to provide accrual income

AUM Rs. 1,065 Crs

YTM 7.00%

Avg. Maturity 6.02 Yrs

Mod. Duration 4.24 Yrs.

Data as on March 31, 2020

April 15, 2020

Opportunity to invest in Accrual Funds

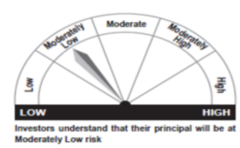
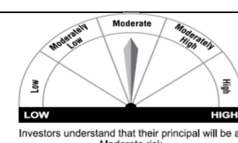
To Summarize…

1. Historically sharp rise in yields (during crisis) is typically followed by a significant drop in yields within a short period of time as central banks intervene to soothe markets

2. Current yields are at an elevated level which are expected to come down as markets approach normalcy

3. Invest in high quality accrual oriented funds (predominantly AAA portfolio) to benefit from the compression in spreads

Product Labelling

Fund Name	Type of Scheme	The product is suitable for investors who are seeking:*	Riskometer
UTI Money Market Fund	An open ended debt scheme investing in money market instruments	•Reasonable income with high level of liquidity over short-term • Investment in money market securities	
UTI Floater Fund	An open ended debt scheme predominantly investing in floating rate instruments (including fixed rate instruments converted to floating rate exposures using swaps/derivatives)	• To generate reasonable returns • To invest predominantly in floating rate instruments (including fixed rate instruments converted to floating rate exposures using swaps/derivatives)	
UTI Corporate Bond Fund	An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds	• Optimal returns over the medium to long term • To invest predominantly in AA+ and above rated corporate debt	

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

Glossary:

- FPI: Foreign Portfolio Investors
- MF: Mutual Funds
- RBI: Reserve Bank of India
- BPS: Basis Points
- AUM: Asset under management
- YTM: Yield to maturity
- Avg. Maturity: Average Maturity
- Mod. Duration: Modified Duration

instruments or investment strategies referred to on this document and should understand that statements regarding future prospects may not be realized. The recipient of this material is solely responsible for any action taken based on this material. Opinions, projections and estimates are subject to change without notice.

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