
Active Short Term Funds – A forgotten category

Why prefer Active Short Term Funds?

AID IN GENERATING ALPHA

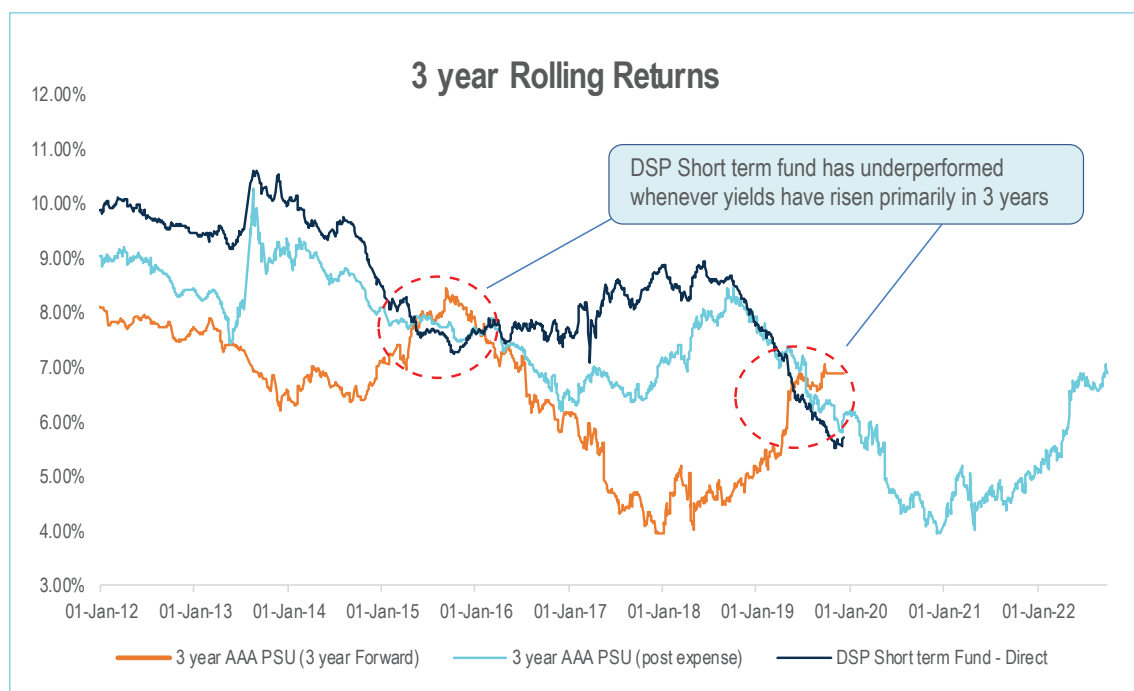
- Passive roll down funds aims to provide better predictability of returns in given time frame while active short term funds can aid in alpha generation when rates peak out or starts to fall

ILLUSTRATION

- Let's do a backtest assuming an investor invests in 3 year AAA PSU roll-down strategy vs DSP Short term fund in last 10 years
- Holding period is 3 year & 0.5% deducted for expense/cash drag & tracking error for 3 year AAA PSU

RESULTS

- DSP Short term fund had provided better return in case interest rates fall or are flat. This can be due to reinvestment at higher rate + MTM gain + Active manager alpha
- When interest rate rises, fund generally underperforms



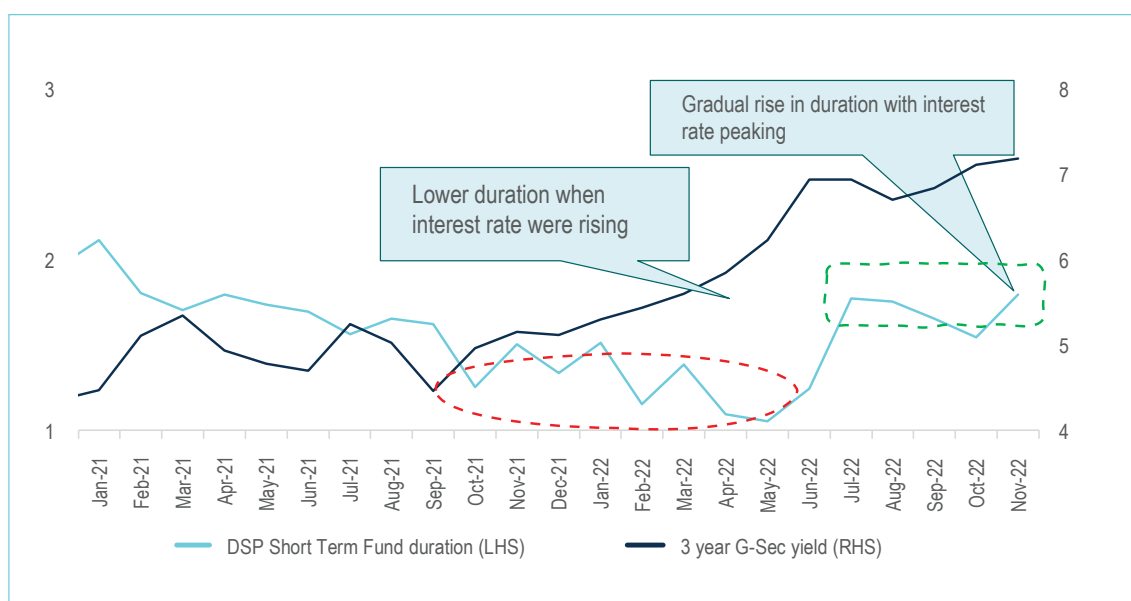
Average Returns	DSP Short term Fund – Direct plan	3 year AAA PSU (post expense)	Alpha	% times DSP Short term fund outperform
When rates rise	6.9%	7.2%	-0.3%	5.5%
When rates fall or are flat	8.5%	7.7%	0.8%	91.2%
Since inception	8.2%	7.6%	0.6%	76.9%

DSP Short term fund can be preferred if interest rate peaks out

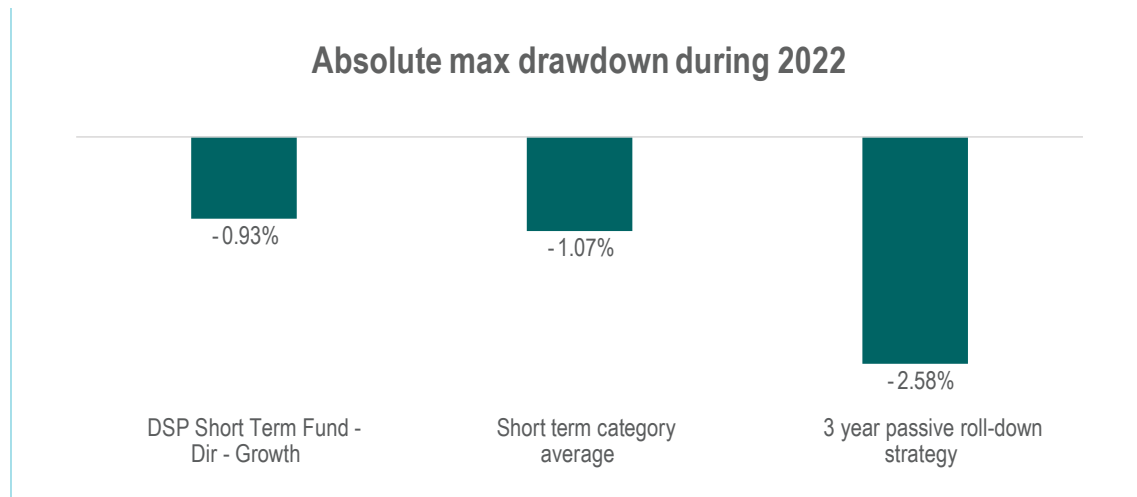
Source – MFIE, Bloomberg; Data from 01 Jan 2013 to 30 Nov 2022; **Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments.** There is no assurance of any returns/capital protection/capital guarantee to the investors in the Scheme. Refer Annexure for performance in SEBI prescribed format & performance of other schemes managed by same fund manager. MTM – Mark to Market. Growth option considered for DSP Short term fund

DYNAMIC DURATION MANAGEMENT

- DSP Short term fund had dynamically managed duration in last 1 year
- This led to lower volatility when interest rates were rising + opportunity to increase duration at higher interest rate



- Owing to lower duration during rising rate cycle, DSP Short term fund had lower drawdown compared to short term category & 3 year passive roll-down strategy

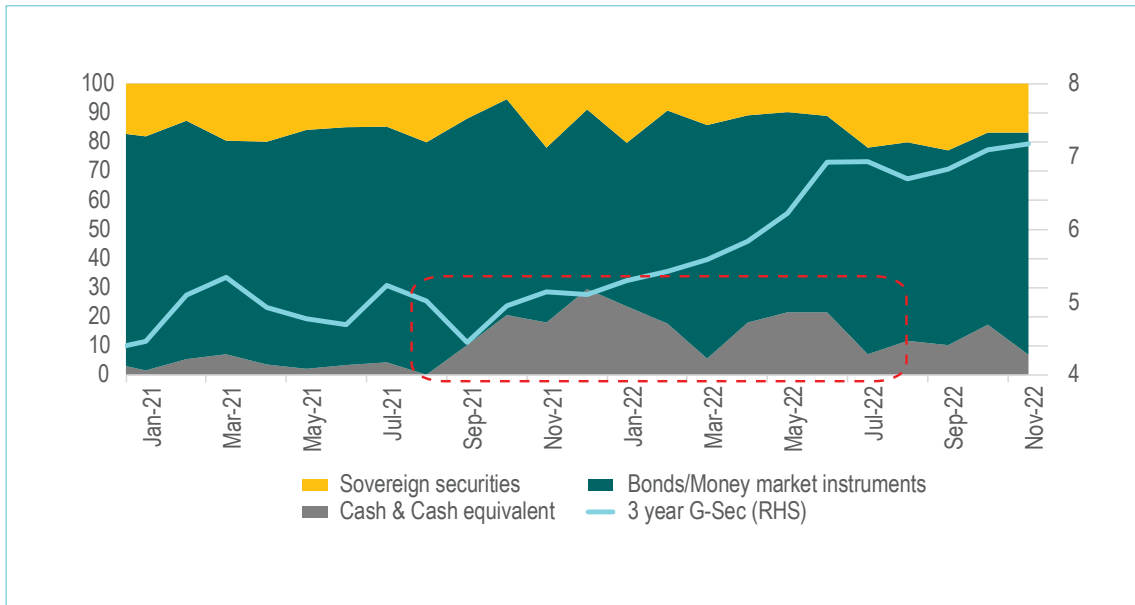


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DYNAMIC ALLOCATION TO MAXIMISE ACCRUAL

➔ ASSET ALLOCATION

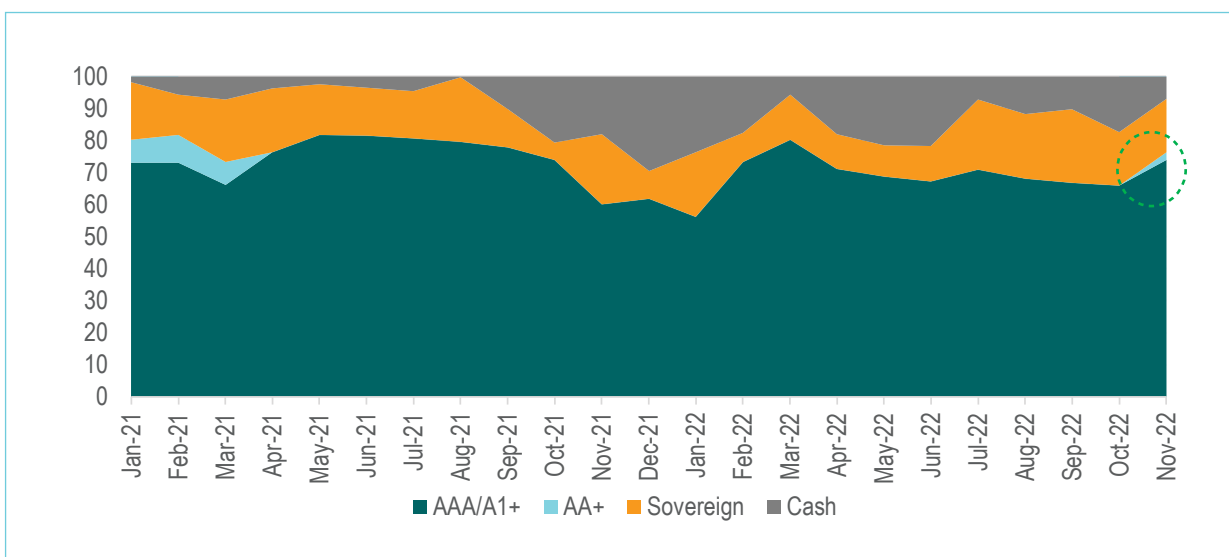
- Fund started to increase cash exposure since Sep 2021 in anticipation of rate hike & it had ~ 20% cash during rising interest rate
- As interest rate peaked out, fund has gradually started to reallocate cash positions by buying higher duration asset at higher interest rate.
- Steady allocation to sovereign securities can improve credit quality + liquidity profile of fund



Source – MFIE, Bloomberg; Data as on 30 Nov 2022;

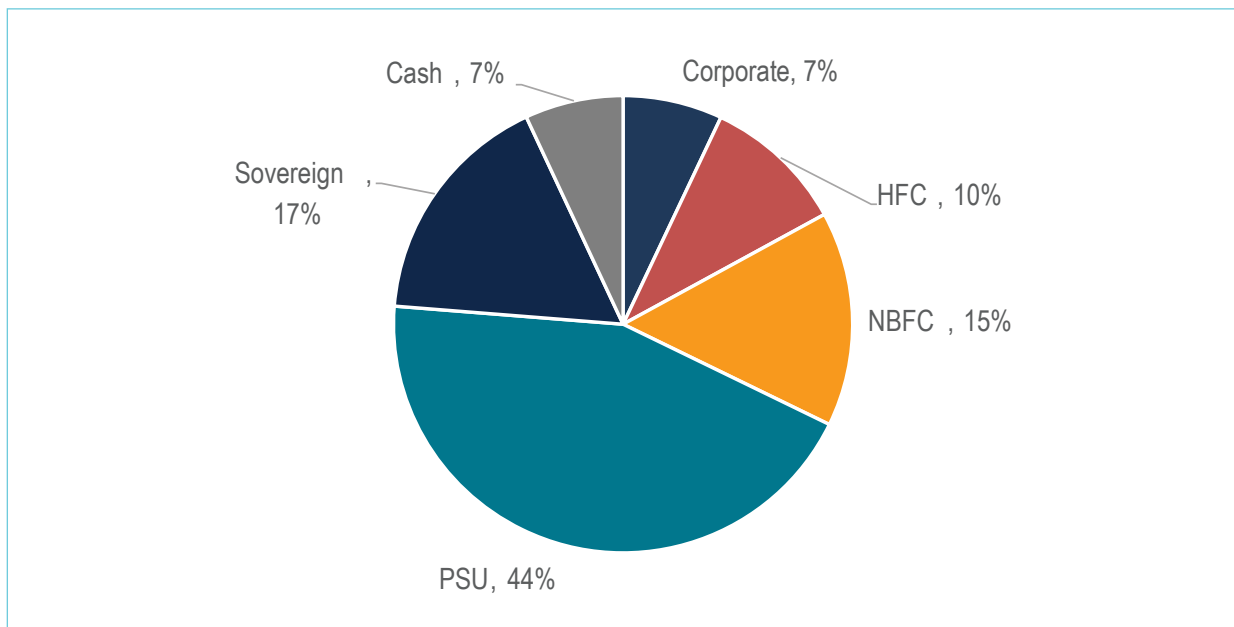
➔ RATING ALLOCATION

- Fund has high credit quality with bias towards AAA/A1+ & sovereign securities.
- Fund has recently started to increase exposure to select AA+ securities due to attractive yields

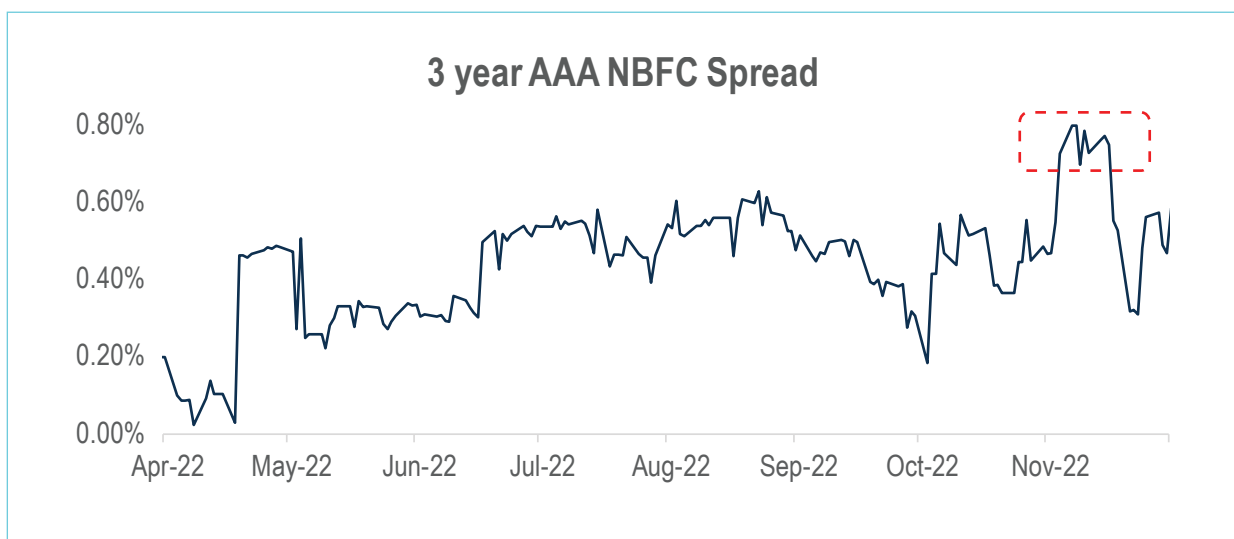


➔ **SECTORAL ALLOCATION**

- Fund tends to maintain diversified sectoral exposure. Allocations are realigned based on spreads.

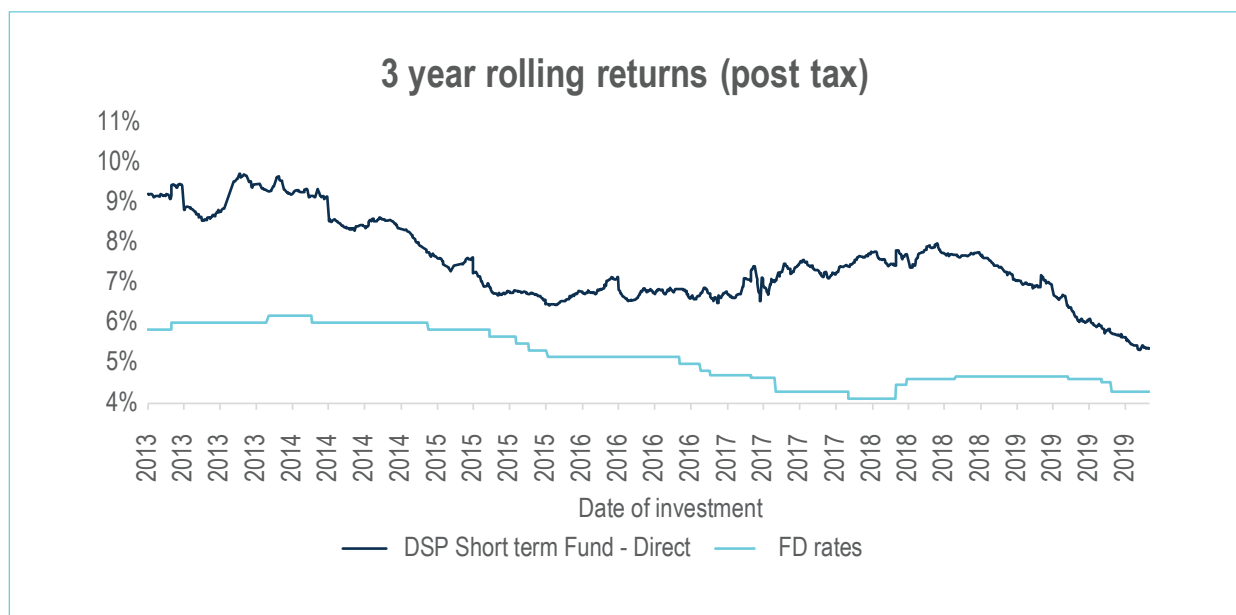


- Fund increased exposure to NBFCs as spread became attractive (~7% in Oct 22 to 15% in Nov 22)



ALTERNATIVE TO FDs

- DSP Short term fund is a tax efficient alternative to Fixed deposits for holding period > 3 years due to lower tax rate (@20%) + indexation benefit
- Based on historic data, its observed that DSP Short term fund has always outperformed Fixed Deposits on 3 year rolling post tax returns with average alpha of ~ 2.3%



Source – MFIE, Bloomberg; Data from 01 Jan 2013 to 30 Nov 2022; Tax rate for fixed deposit is assumed at 31.2% excluding surcharge. Historic Fixed deposit rates are taken from SBI website. Growth option considered. The comparison with PPF, Bank Fixed Deposit (and other traditional saving instruments) has been given for the purpose of the general information only. Investments in mutual funds should not be construed as a promise, guarantee on or a forecast of any minimum returns. Unlike traditional saving instruments there is no capital protection guarantee or assurance of any return in mutual fund investment. Traditional savings instruments are comparatively low risk products and are backed by the Government (except 5- year recurring deposits). Investment in mutual funds carries high risk as compared to the traditional saving instruments and any investment decision needs to be taken only after consulting the Tax Consultant or Financial Advisor.

Our Conclusions

DSP Short term fund can be considered as complementary to passive roll-down funds which can potentially help investors generate alpha if interest rate peaks out or starts to fall over next 3 years assuming 3 year holding period

Active duration management can help to reduce volatility & drawdowns thereby providing better investor experience especially for risk-averse investor

Dynamic allocation to sector/ratings/cash can potentially help fund to improve scheme's Yield to Maturity (YTM)

A tax-efficient alternative to Fixed deposits with high credit quality portfolio spread across many issuers.

Don't lose the moon while counting the stars

ANNEXURE – Performance in SEBI prescribed format

	DSP Short Term Fund		CRISIL Short Duration Fund All Index ^		CRISIL 10 Year Gilt Index #	
	CAGR	Current Value of Rs.10000 invested	CAGR	Current Value of Rs.10000 invested	CAGR	Current Value of Rs.10000 invested
1 Year	3.37%	₹ 10,337	3.04%	₹ 10,304	-0.21%	₹ 9,979
3 years	5.58%	₹ 11,771	5.45%	₹ 11,728	3.47%	₹ 11,079
5 Years	6.60%	₹ 13,768	6.50%	₹ 13,702	5.10%	₹ 12,828
since Inception	7.85%	₹ 21,160	7.04%	₹ 39,606	6.14%	₹ 33,394
NAV / Index Value	₹ 41.42		₹ 4,130		₹ 4,107	

Date of allotment: Jan 01, 2013.

Period for which fund's performance has been provided is computed based on last day of the month-end preceding the date of advertisement

Different plans shall have a different expense structure. The performance details provided herein are of Direct Plan – Growth Option.

Since inception returns have been calculated from the date of allotment till November 30, 2022

Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments

^ Fund Benchmark # Standard Benchmark

Fund Manager

Laukik Bagwe – Managing since Jul 2016

Sandeep Yadav – Managing since Mar 2022

ANNEXURE – Performance of schemes managed by same fund manager
All Funds managed by Laukik Bagwe

Sr. No.	Period	1 Year		3 Years		5 Years	
		Scheme return (%)	Benchmark return (%)	Scheme return (%)	Benchmark return (%)	Scheme return (%)	Benchmark return (%)
1	DSP Nifty SDL Plus G-Sec Jun 2028 30:70 Index Fund	NA	NA	NA	NA	NA	NA
2	DSP Short Term Fund	2.74	3.04	4.91	5.45	5.88	6.5
3	DSP Floater Fund	2.43	3.24	NA	5.96	NA	6.76
4	DSP 10Y G-Sec Fund	-0.55	-0.21	4.05	3.47	5.49	5.1
5	DSP Global Allocation Fund	-6.22	-3.25	7.26	8.12	7.23	9.56
6	DSP Credit Risk Fund	8.81	5.77	5.51	8.56	3.57	7.92
7	DSP Dynamic Asset Allocation Fund	1.79	6.84	7.78	12.99	7.18	10.85
8	DSP Banking & PSU Debt Fund	2.91	2.84	5.49	5.74	6.51	6.37
9	DSP US Flexible Equity Fund	-2.14	-3.1	13.97	15.31	13.09	15.96
10	DSP Government Securities Fund	2.32	1.26	6.16	5.52	7.32	6.52

All Funds managed by Sandeep Yadav

Sr. No.	Period	1 Year		3 Years		5 Years	
		Scheme return (%)	Benchmark return (%)	Scheme return (%)	Benchmark return (%)	Scheme return (%)	Benchmark return (%)
1	DSP Short Term Fund	2.74	3.04	4.91	5.45	5.88	6.5
2	DSP Low Duration Fund	3.91	4.37	4.68	5.19	5.98	6.2
3	DSP Strategic Bond Fund	0.99	2.85	5.29	7.81	6.24	7.33

Data as on 30 Nov 2022. Direct plan & growth option considered. **Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments**

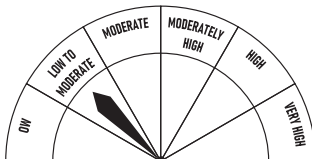
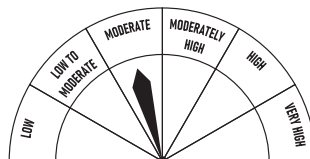
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For complete details on investment objective, investment strategy, asset allocation, scheme specific risk factors and more details, please read the Scheme Information Document, Statement of Additional Information and Key Information Memorandum of the scheme available on ISC of AMC and also available on www.dspim.com

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

Fund	Product Suitability	Riskometer (DSP Short Term Fund)	Riskometer (CRISIL Short Duration Fund All Index)
DSP Short Term Fund (An open ended short term debt scheme investing in debt and money market securities such that the Macaulay duration of the portfolio is between 1 year and 3 years (please refer page no. 19 under the section 'Where will the Scheme invest?' for details on Macaulay's Duration). A moderate interest rate risk and relatively low credit risk.)	This scheme is suitable for investors who are seeking* <ul style="list-style-type: none"> Income over a medium-term investment horizon Investment in money market and debt securities * Investors should consult their financial advisers if in doubt about whether the Scheme is suitable for them.	 <p>RISKOMETER INVESTORS UNDERSTAND THAT THEIR PRINCIPAL WILL BE AT LOW TO MODERATE RISK</p>	 <p>RISKOMETER INVESTORS UNDERSTAND THAT THEIR PRINCIPAL WILL BE AT MODERATE RISK</p>

Potential Risk Class Matrix: The potential risk class matrix of DSP Short Term Fund based on interest rate risk and credit risk is as follows:

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